



# Shultz Says French Ambiguity on NATO Is 'Aggravating'

By Bernard Gwertzman  
New York Times Service

WASHINGTON — Secretary of State George P. Shultz has expressed irritation with the French government, saying that "it is aggravating" to deal with France on allied matters because of ambiguity by the French about their role in the Atlantic alliance.

Mr. Shultz, who rarely criticizes an ally publicly, made the comments Friday night as he flew to Washington from the North Atlantic Treaty Organization meeting in Paris. He said the conclusion of the two-day meeting of NATO foreign ministers was delayed for about three hours because of French "sensitivity" over the wording of the final communiqué.

"You are constantly in the process of saying, 'The allies think such and such,' and then the French say, 'We agree with that, so that's no problem, but that's something the unified command did and we can't touch that,'" Mr. Shultz said. "And then you struggle around with language not to weaken the point, and at the same time, protect the precision of the French view."

France is a charter member of NATO, but pulled out of the military command in the 1960s. Mr. Shultz's comments were an expression of his long-standing irritation with what he called the difficulty of

dealing with France on the drafting of allied statements. The problem dates from November, when France withdrew, after initially agreeing, to a joint statement on East-West economic relations to support a crisis over the Soviet natural gas pipeline.

Mr. Shultz also stressed, as he did earlier in the week in Paris, that the United States was probing the Russians on a wide range of issues, but that so far there had been not enough progress to warrant any high-level meeting before he sees Foreign Minister Andrei A. Gromyko at the United Nations in the fall.

As to a possible summit meeting between President Ronald Reagan and Yuri V. Andropov, the Soviet leader, Mr. Shultz said some allied ministers he talked with in Paris "think it would be nice just to have a meeting." But he said the majority favor a summit only "if there is something worthwhile to come out of it." That, he said, is "precisely the president's view as well."

On Saturday morning, Mr. Shultz met for two hours with Philip C. Habib, the special Middle East envoy, and other Middle East advisers, before conferring with Elie Salem, the Lebanese foreign minister. The Lebanese are pressing the United States to take an active role in trying to bring about Syria's agreement to withdraw from Lebanon.

Mr. Shultz said Friday night regarding the Middle

East, "I can't say there are indications of something about to break." But he said he had heard "more background noise, or whatever, that has to do with problems that Syria sees, that are essentially descriptions of problems that are resolvable through negotiations, essentially between Lebanon and Syria."

"That doesn't mean there is a break in the logjam, however," he added.

Mr. Shultz is scheduled to make a trip soon to the Far East, including attending a meeting in Bangkok of Southeast Asian nations, and then to fly to India and Pakistan for talks. An aide said Mr. Shultz might conclude that trip early next month with stops in the Middle East. But Mr. Shultz said there were now no such plans.

In discussing relations with France, he spoke, as have many of his predecessors, of frustrations in negotiating agreements with the French. Only rarely has any secretary of state discussed the matter as candidly as Mr. Shultz.

A senior aide said that Mr. Shultz regarded the French with "carefully controlled civility." He said the secretary finds it particularly annoying when the French tell him in private that they agree with a position, then insist on something else publicly.

"We recognize that for political reasons, Mitterrand needs to put some distance between themselves and

the alliance," the aide said, "but it doesn't mean that we enjoy the process." President François Mitterrand's Socialist government is under attack from the left for allowing France to be drawn too closely into NATO's military plans.

The fact that the NATO meeting was held in Paris after an absence of 17 years was meant to symbolize France's attachment to the alliance. But Foreign Minister Claude Cheysson, at a news conference Friday in Paris, sought to leave the impression that France made no concessions in the final communiqué.

The NATO statement contained a reference to East-West trade. Mr. Shultz said time was spent Friday morning in debating whether the communiqué would include a reference to the allies' seeking alternate sources of natural gas — so that they are not overly dependent on the Soviet pipeline — or just alternate energy sources.

The original draft referred to natural gas, aides said, but the final document, to meet French objections, said that "development of Western energy resources should be encouraged."

"So, it's always something that seems to take a lot of discussion," Mr. Shultz said, "and to some extent, it is aggravating."

Nevertheless, he said, he thought the meeting ended well.

## BUSINESS BRIEFS

### Li Seen Getting China Presidency

BEIJING (Reuters) — China gave the strongest hint yet Sunday that the veteran economic planner, Li Xiangmin, will become the new president by publishing his picture on the front page of the People's Daily.

He was shown with delegates to the current session of the National People's Congress, which is due next week to elect China's first president since the 1960s under a constitution adopted last year. Diplomats said the prominence given to Mr. Li meant there was little doubt he would be elected, as has been widely expected for several weeks.

Mr. Li, 78, is widely respected for questioning Mao's economic policies in the 1950s, although he remained loyal and managed to stay in favor during the 1966-76 Cultural Revolution. He is regarded as a compromise candidate acceptable to both reformist and conservative elements in the leadership.

### Gandhi's Party Fails in Kashmir

NEW DELHI (NYT) — A regionally based political group, the National Conference Party, has won a substantial majority in assembly elections in the northern Indian state of Jammu and Kashmir.

The election was regarded as a test of the central government's ability, through Prime Minister Indira Gandhi's Congress-I Party, to strengthen its hand in the Kashmir Valley at a time when regional political movements are cutting into its strength. In the weeks before the election at least three persons were killed and several hundred injured in clashes between the two parties' supporters.

With the results of the June 5 elections made public Saturday for 71 of 76 constituencies statewide, the Congress-I Party had won only one of the 42 seats in the overwhelmingly Muslim Kashmir and 23 of 32 seats in the predominantly Hindu Jammu region. The National Conference, which calls for semi-autonomy for Jammu and Kashmir, had taken 44 of the 71 seats.

### 100,000 Demonstrate in Madrid

MADRID (Reuters) — About 100,000 people took part in a demonstration Sunday calling for Spain's withdrawal from the North Atlantic Treaty Organization and the removal of U.S. military bases, organizers and police said.

The march and rally were organized by the Communist Party and anti-NATO and anti-nuclear groups. A statement was read calling for the dismantling of U.S. bases, Spain's withdrawal from NATO and an immediate referendum on membership.

Spain joined NATO last year under the former centrist government, but the Socialists froze military integration when they came to power in December and promised a referendum. The Socialists have yet to announce a referendum date, and Foreign Minister Fernando Morán said Saturday that East-West tension over the deployment of nuclear weapons in Europe appeared to rule out the possibility until 1985.

### France Tightens Police Discipline

PARIS (Reuters) — The French government Sunday ordered all off-duty policemen confined to quarters next Thursday, when riotous police unions have called for new mass demonstrations.

On June 3, 2,000 policemen, angered by the deaths of two detectives, demonstrated in Paris, calling for the resignation of the interior, justice and security ministers. Unions have called the Socialist government soft on law and order.

The authorities retaliated by removing the heads of the national and Paris police forces and dismissing two police union leaders. President François Mitterrand said on television that he regarded the protests as seditious and would not tolerate any challenge to the authority of the state.

### Mitterrand Gets Corsica Security

AIACCIO, Corsica (AP) — France has sent 3,000 extra policemen to Corsica for President François Mitterrand's 48-hour visit to the island, which has been plagued by separatist violence in recent years.

The Corsican National Liberation Front said last month that it would refrain from violence during Mr. Mitterrand's visit, which begins Monday. The group said its restraint reflected a hope that France's ruling Socialists would grant independence to the island. As part of their overall decentralization program, the Socialists have given Corsica limited autonomy through a locally elected regional council.

Despite a recent upsurge in bombings, there has been a significant decrease in terrorism this year. Only one person has been injured in the 292 bombings during the first four months of the year, and that was a suspected FLNC member wounded while allegedly planting a bomb.

### Solidarity Radio Reported Seized

WARSAW (AP) — Ten persons were arrested in the southern city of Krakow when police raided a Solidarity radio transmitter and three printing shops, Polish television reports.

The report Saturday said the transmitter was taken off the air by the security forces and the man operating it was detained. In the past, organizers of the clandestine Solidarity radio network have used timing devices to switch transmitters off and on in an effort to protect technicians. This time, however, police seized broadcasting equipment in a string of raids and arrested its leaders and organizers, including Zbigniew Romaszewski, the architect of the venture, the report said.

### Ireland Weighs U.K. Vote Results

DUBLIN (Reuters) — The Irish government is expected to review its relations with Britain and Northern Ireland this week following the electoral success of both the Conservative Party and hardline Irish nationalists. The government, which is committed to the peaceful reunification of Ireland, faces a polarization of the Irish issue following Thursday's election.

Prime Minister Margaret Thatcher's landslide victory and the success of unionist parties in Northern Ireland pledged to remaining British, which captured 15 of the province's 17 seats, indicated a hardening of the unionist position.

However, Sinn Féin, the political wing of the guerrilla Irish Republican Army, gained a seat in the British Parliament. The gain by Sinn Féin, which is committed to ending British rule in Northern Ireland, showed a toughening of nationalist opinion as well.

### EC Ministers Prepare for Summit

BRUSSELS (Reuters) — Foreign ministers of the European Community will meet Monday in Luxembourg to prepare for Friday's meeting of heads of state and government.

The ministers' main item for discussion is a West German plan to end economic crisis in the EC, mainly by cutting down on farm spending, which is expected to go over the budget this year by \$2 billion. Diplomats said the ministers were not expected to reach any decisions but simply to lay the basis for decisions at the summit in Stuttgart.

West Germany's plan, submitted in a paper to EC governments last week, considers the issue of how to meet next year's increased bills and how to resolve the perennial problem of the size of Britain's contribution to the budget.

### Accord Reached On Air Pollution

GENEVA (UPI) — Nations of East and West Europe, and the United States and Canada, have agreed to adopt national programs to reduce sulphur emissions causing long-range air pollution. But there was no agreement on a proposal by Finland, Norway and Sweden to reduce the emissions 30 percent by 1993.

Officials said some countries argued that it was better for each government to do what it could without being tied to an exact figure. Agreement was also lacking on a proposal by Austria, West Germany and Switzerland that governments limit the sulphur content of light fuel oil and diesel oil to 0.3 percent.

The accord on national programs came Saturday at a four-day meeting of the executive group monitoring application of the 1979 Convention on Transboundary Air Pollution, which came into force in March after ratification by 21 nations.

### For the Record

BELGRADE (AP) — Three more miners died Saturday of injuries they received in Tuesday's methane gas explosion in a coal mine in Aleksandria, bringing the death toll in the disaster to 24, the official press agency, Tanjug, reported.

PARIS (Reuters) — Philippe Augoyard, the French physician freed earlier this month from prison in Afghanistan, arrived Sunday in Paris from Bombay. He was captured in January while on a humanitarian mission in an area controlled by guerrillas opposing the pro-Soviet government.

CORRECTION: An article by a Soviet Communist Party Central Committee official, Nikolai Ponomarev, quoted in a Washington Post dispatch from Moscow and published on the front page of the International Herald Tribune on June 11, appeared in the weekly Moscow News, not in the New Times.

## Preliminary Work Said to Start On Putting U.S. Missiles in Europe

By Drew Middleton  
New York Times Service

BRUSSELS — Officials at the headquarters of the Atlantic alliance here report that preliminary work on deploying U.S.-made medium-range nuclear missiles in Europe is under way.

The officials said the United States expected to deploy 41 missiles this year as part of its effort to persuade the Soviet Union to agree at talks in Geneva to reduce the number of such weapons in Europe.

Sixteen of them are ground-launched cruise missiles that are to be deployed in Britain by the U.S. Air Force. One official said these weapons were nearing the installation stage. They will be placed on four trailers, each the size of a large gasoline tanker.

Another 16 cruise missiles are to be deployed in Sicily this year. The remaining nine missiles to be deployed this year are Pershing-2s. The U.S. Army is to set them up in West Germany.

U.S. and other NATO officials said this first deployment was necessary to obtain what one called "realistic negotiation" by Moscow. The North Atlantic Treaty Organization has decided to deploy 572 intermediate-range missiles if the talks between the Soviet Union and the United States do not result in agreement.

Both political and military sources said they hoped the initial deployments would convince the Soviet Union that the United States and NATO were in earnest about countering the Soviet Union's SS-20 missiles if an agreement is not reached in Geneva.

Other NATO plans were discussed in an interview with General Bernard W. Rogers, supreme allied commander, Europe, who is urging the allies to obtain new conventional weapons to help prevent Soviet attack and make the use of nuclear weapons less likely.

NATO sources said the West is developing and producing weapons that can strike deep behind Soviet lines but that the United States has had limited success in persuading the allies to obtain the weapons.

General Rogers said some allies thought "the United States was pushing this emerging technology to sell additional weapons systems to Europe." The United States, he said, "doesn't care where the weapons come from as long as they are available to reduce enemy follow-on forces in the event of aggression."

Some new systems are nearing deployment. According to General Rogers, one called Pave Mover radar would operate over friendly territory, survey areas far behind enemy lines, track ground targets and send course corrections to friendly missiles.

General Rogers estimated that buying the new weapons would require each ally to increase military spending by 4 percent a year in real terms. He acknowledged that NATO was far from reaching the agreed-upon growth of 3 percent for 1982 and 1983.

## Foot Resigns Labor Post Following Heavy Defeat

(Continued from Page 1)

defeat of the last government in 1979. The poor results in this election plainly represent repudiation of those leftist policies. But, experts say, it may well be that the deciding votes in the party's cumbersome internal selection process will nevertheless be cast by left-wing Labor unions and local constituency groups.

The second element in the choice will be to find the person best equipped to revitalize the party's image. British media derision of the party's campaign style, and of Mr. Foot's own ramshackle appearance, gave Labor the aura of a loser. With the results of the election providing confirmation of that impression, Labor seems especially in need now of a leader who can revive its spirits.

Measured against these criteria, Mr. Kinnoch was rated by most political analysts Sunday as the candidate to beat. He is identified with the left and was a staunch Foot loyalist. But he has come under attack from local activists even further to the left who accuse him of creeping pragmatism. Mr. Kinnoch privately acknowledges that ideological compromises will be essential in the next few years if the party's moderates are not to drift further toward the Social Democratic-Liberal alliance or even the Conservatives.

In the election, Labor prevailed only in its strongholds in the depressed industrial north, Scotland and the inner cities, which is not enough if it is to claim power again. It received only 28 percent of the vote, its lowest poll since 1918.

Mr. Kinnoch's greatest asset,

however, is his vigor and charm. With a husky voice, a warm Welsh working-class accent, and an easy smile, Mr. Kinnoch comes across well on television. He played a prominent media role in the last campaign, providing Labor with some of its few upbeat moments. At 41, he is young, but that may be considered a plus with the next election four or five years away.

His critics say Mr. Kinnoch is intellectually shallow, lacks any experience in government and devotes too much attention to his public persona. Asked Sunday how he would feel about the leadership, Mr. Kinnoch replied, "It would be daunting but in no way frightening."

Mr. Hattersley is rated the second most likely prospect. He has a well-rounded party profile, a good background in government and an acceptable rhetorical style. On the nuclear issue and EC membership, his views are probably too moderate for the party's hard left. And unlike Mr. Kinnoch, he does not have a strong base of support in the unions or local party groups who hold 70 percent of the votes in Labor's "electoral college."

Mr. Shore is probably too old, pundits were saying Sunday, as he would be nearing his mid-60s at the time of the next campaign. Moreover, Mr. Shore is still identified with the governing party of the 1960s and 1970s. He acknowledged as much Sunday when he said that the party would be choosing its leadership for the 1990s at its upcoming ballot.

There will also be several dark-horse candidates in the running, although none is given much of a chance.

## Britain's Welfare State Aided Thatcher

(Continued from Page 1)

most electoral benefit. Her program for selling council houses — apartments in public housing projects — was cited repeatedly during the campaign by working-class voters as a reason for switching from Labor to the Tories. She intends to extend it, to the fury of Labor, which argues that the best houses will be taken by those who can afford them (although 100 percent mortgages are available in many cases), leaving the worst for the poorest people.

But the British public is not unlike the American public in its suspicion of socialism, if by socialism one means the public control of the "commanding heights" of industrial production. The average British voter long ago accepted as essentially correct the social thrust of Labor Party policy as embodied in the welfare state, but he or she is far more skeptical about the virtues of nationalized industries. Mrs. Thatcher's hopes of selling off

those she can return to profitability — British Airways is one such target — appear to have lost her relatively few votes during this year's campaign.

The most telling criticism made by Michael Foot and Denis Healey, the Labor leader and his deputy, was that by accepting massive unemployment as the price of controlling inflation, Mrs. Thatcher was not only crippling British industry but frittering away the revenues from Britain's North Sea oil fields, which will begin to decline during her second year in office. They insisted that the money should be used to create jobs; she countered that the only way to create real jobs was to control inflation and boost productivity.

But that argument, however crucial it may be in the long run to the provision of adequate funding for the social services and for education, is not really an argument about the merits of socialism but about the management of the economy.

The next year will almost certainly see a renewal of the long debate within the Labor Party about whether it is a revolutionary or a reforming organization. Although the squabbles during the campaign obscured the details, this year's party manifesto went further in the direction favored by the left wing, headed by Tony Benn, than any in recent memory. It, and the party, failed to convince the voters. Mr. Benn, in fact, lost the seat he had held for 33 years.

Now the question will be whether Labor chooses to talk to its dwindling band of predominantly radical rank-and-file members or decides instead to move to the right in order to appeal to the mass of uncommitted voters it needs to win elections. Will it abandon, for example, the idea of further nationalization? Many think it should do so and concentrate its efforts on strengthening the social welfare systems that are its principal contribution to modern Britain.

## OAU Votes Western Sahara Plan; Disputes Plague Summit to End

The Associated Press

ADDIS ABABA, Ethiopia — The Organization of African Unity concluded its 19th summit meeting Sunday with a peace plan for the Western Sahara as its major achievement. But the gathering was plagued to the end by ideological and regional disputes.

The Western Sahara agreement came after an overnight session that ended Saturday morning. The agreement called for the first time for direct negotiations between Morocco and the Polisario Front, which is fighting Morocco for control of the territory — as well as for a cease-fire and for a referendum in December.

The issue had nearly caused the summit to collapse. Early Sunday, the leaders became deadlocked over election of secretary-general. An unofficial count of about 47 ballots failed to produce a majority for any of the three declared candidates, so the leaders asked Peter Onu of Nigeria to be acting secretary-general until next year's summit.

Mr. Onu has been deputy secretary-general for political affairs for 11 years.

After considerable debate, the leaders agreed that the 20th summit would be held in Conakry, Guinea. Conakry had been chosen two years ago, before the controversy over the Western Sahara. President Ahmed Sékou Touré of Guinea, who opposes the Polisario guerrillas, sent no delegations when the OAU tried twice last year to hold the 19th summit in Libya, a key Polisario backer.

Sources said Polisario supporters maintained that they would boycott a summit in Conakry. Ethiopia's leader, Lieutenant Colonel Meles Zenawi, the new chairman of the organization, said in a closing speech, "We have publicly rebuffed our detractors. We have also put to shame the anti-African forces who have been plotting and conspiring" the disintegration of the OAU.

Like other African leaders, Colonel Meles, who replaced President Daniel Arap Moi of Kenya as chairman, made much of the fact that the 19th summit was finally

able to meet after the cancellations in Tripoli and a two-day delay in getting under way in Addis Ababa. On the Western Sahara issue, Morocco has refused to recognize the existence of the Polisario, contending that the guerrillas are Libyan-backed "mercenaries" who have infiltrated the former Spanish territory, which borders Morocco, Algeria and Mauritania. Morocco says it should negotiate with the other two countries rather than with the Polisario.

Foreign Minister Mohammed Boucetta of Morocco said his country was willing to go along with the OAU peace plan. He expressed reservations about direct talks with the Polisario, but said Morocco was ready "to explore all avenues."

## U.S. Aide Interviewed On Soviet Television

By Dusko Doder  
Washington Post Service

MOSCOW — Deputy Secretary of State Kenneth W. Dam addressed millions of Soviet television viewers on arms control issues Sunday night. It was the first time in recent years that a highly placed U.S. official was interviewed by Soviet television and that his uncensored remarks were relayed in full.

During the six-minute interview, Mr. Dam explained President Ronald Reagan's attitudes and policies on arms control, including his latest proposals on reduction in strategic weapons.

He taped the interview in Washington last Wednesday, responding to questions by Alexander Dvornikov, the Washington correspondent of Soviet television. The interview was shown in full on a prime-time international affairs program.

Observers in Moscow said the decision to air Mr. Dam's interview appeared to have been made in response to Reagan administration complaints about the lack of opportunity for its spokesmen to directly address the Soviet population. By contrast, the administration has argued, various prominent Soviet spokesmen have had wide access to the U.S. news media.

In pressing for greater access to the Soviet media, the U.S. State Department recently heard George A. Artstov, a senior Kremlin adviser on American affairs, from speaking to journalists during a recent visit to the United States.

Mr. Dam's interview on Moscow television was followed by an interview with Gene R. LaRoque, a retired admiral who has been active in the anti-nuclear movement in the United States.

Admiral LaRoque, who was asked almost the same questions as Mr. Dam, sharply criticized the Reagan administration's military policies and asserted that Mr. Reagan, while talking about arms control, was pushing a vigorous rearmament program.

The five-minute interview with Admiral LaRoque was followed by eight minutes of coverage of anti-war activities in New York, focusing on a theater called Off Wall and showing parts of a political satire entitled "Freedom Ain't No Bowl of Cherries."

The satire as well as interviews

with members of the cast included charges that the Reagan administration was preparing for war and that a small group of banks and industries involved in the production of weapons were benefiting from Mr. Reagan's program at the expense of the rest of Americans.

The moderator of the program, Alexander Boyin, summed up the program by saying that Mr. Reagan's latest proposals did not show any flexibility and could not constitute the basis for negotiations.

A Soviet newspaper reported Sunday that about 300 Soviet construction workers who walked off their jobs at the site of the new American Embassy in Moscow, returned to their jobs last Wednesday.

The walkout, Moskovskaya Pravda said, should teach the U.S. Embassy that rules of the host nation should be "strictly and undeviatingly observed."

The workers left their jobs almost three weeks ago because of the use of a machine capable of finding electronic listening devices. The Russian workers said the device, described as an X-ray machine, was a health hazard.

## Money, Suicide Linked in Japan

Reuters

TOKYO — Money worries drove an increasing number of middle-aged Japanese men to kill themselves last year, according to an official report.

The annual report of the National Police Agency said that 12.8 percent more men in their 50s committed suicide last year than the year before. The number of cases in which money was the motive increased by a third.

The report said a total of 21,288 persons killed themselves last year.

## Cocaine Seized in Miami

The Associated Press

MIAMI — U.S. Customs agents reported finding 1,000 pounds (450 kilograms) of cocaine, worth about \$300 million, in flower boxes on a Saturday flight from Medellin, Colombia.

Cranston  
Of Monday  
Wisconsin

Chairman

## Cranston Scores Upset Of Mondale in Poll of Wisconsin Democrats

By Martin Schram  
Washington Post Service

MILWAUKEE — In a stunning upset, Senator Alan Cranston of California has defeated Walter F. Mondale, the Democratic presidential front-runner, in a straw poll of delegates to the Wisconsin Democratic Convention, significantly boosting his long-shot candidacy.

Mr. Cranston won Saturday on the nuclear-free issue that has become the centerpiece of his campaign. He finished with 38.8 percent of the 2,035 votes cast, compared to 35.7 percent for Mr. Mondale and 21.6 percent for Senator Gary Hart of Colorado.

The defeat startled Mondale strategists and could cause significant damage to the former vice president's candidacy.

Mr. Mondale's advisers had confidently predicted victory in this straw poll that has no official bearing on the delegate selection process for the 1984 national party convention. Anthony S. Earl, the Democratic governor of Wisconsin and a Mondale supporter, had predicted that the former vice president would win 50 percent of the vote.

Mr. Mondale, whose home state is neighboring Minnesota, had the support of most of Wisconsin's prominent Democratic officials. However, Mr. Cranston had set his sights on Wisconsin early, addressing a pro-freeze rally in September, campaigning in the state frequently and attracting endorsements from several of the most liberal activists in the state, which has a long progressive and liberal tradition.

Mr. Mondale's defeat was good news for Senator John Glenn of Ohio, a middle-of-the-road Democrat who has been gaining strongly on Mr. Mondale in national opinion polls and who decided not to appear at the convention rather than risk an embarrassing defeat.

Final poll totals, according to state party officials, were: Mr. Cranston 789 votes; Mr. Mondale 777; Mr. Hart 443; Mr. Glenn 39; Ronan Askew, former governor of Florida, 14; Senator Ernest F. Hollings of South Carolina 1 and undecided 22.

Mr. Hart's forces, who had been locked in a battle with Mr. Cranston to be a liberal alternative to Mr. Mondale, said they felt they had staved off what would have been a devastating defeat with a strong push in the last week that added to their candidate's vote total.

Mr. Cranston proclaimed that his victory "shows that I am one of the top three contenders. I think there are only three of us in the new tier... Mondale, Glenn, Cranston."

Mr. Cranston said he had not expected to win the straw poll but thought he had an outside chance.

Mr. Mondale appeared stunned and was at times testy as he spoke to reporters after his defeat.

"As you know I've had many many good days in this campaign for president," Mr. Mondale said. "This was not one of them." He said he does not plan any changes in his campaign or his message.

"What happened here, I'm not sure," he said.

Mr. Hart said he believes that it is now a four-person race and that he is one of the candidates in that group. He said he does not expect any major breakthroughs in his candidacy until 1984.

"The straw poll, he said, shows that 'the race is wide open. Front-runner status in the spring of 1983 means nothing.'"

## Montreal Businessman To Lead Canadian Tories

By Les Whittington  
Washington Post Service

OTTAWA — A Montreal corporate president, Brian Mulroney, has captured the leadership of Canada's major opposition party, the Progressive Conservatives, in a narrow victory over Joe Clark, a former prime minister.

Mr. Mulroney, 44, who has never held elected office, won Saturday by amassing 1,584 votes — 54.5 percent — to Mr. Clark's 1,325 votes — 45.5 percent — after nine hours of voting by delegates representing electoral districts across the country.

An advocate of free enterprise, Mr. Mulroney is considered on the right side of Canada's Tory party. He expressed the most pro-United States views of any of the eight candidates who competed for the party leadership, calling for an intensive effort to improve investment and trade ties and defending President Ronald Reagan's actions in Central America.

Mr. Mulroney is the first person from the French-speaking province of Quebec ever chosen to head the party, which traditionally has been strong among English-speaking Canadians,

particularly in the western provinces. His election opens the possibility of improved relations between the French and English cultures, whose differences have been a constant source of internal friction.

Most observers think the Progressive Conservatives have a good chance of taking power in the 1980s. A national election is not expected for about a year, but Mr. Mulroney's party is currently far ahead of the Liberal Party of Prime Minister Pierre Elliott Trudeau in public popularity polls.

Mr. Clark was out in front in earlier ballots, but Mr. Mulroney gradually gained strength as lesser candidates dropped out, freeing their supporters to vote for others. Mr. Mulroney won on the fourth ballot.

Mr. Clark, 44, was plagued by a so-called "Anybody But Clark" campaign within his party.

There has been resentment about Mr. Clark's handling of his short-lived administration in 1979. The first leader of a Tory government in Canada in more than a decade, he was defeated by the Liberals in a vote of confidence in the House of Commons after only nine months.



Brian Mulroney and his wife, Mila, at the Progressive Conservatives' leadership convention in Ottawa.

Another problem came from rightist elements of the party who objected to Mr. Clark's moderate positions on maintaining social-welfare spending at close to current levels and on compromising with the often-fractious French Canadians in Quebec.

Mr. Clark had requested the election at a party convention in January after a large bloc of delegates voted against his continued leadership.

Mr. Mulroney has been president of the Montreal-based

Iron Ore Co. of Canada. He speaks fluent French as well as English and based his campaign on votes from the Conservatives in Quebec. After losing to Mr. Clark in the 1976 leadership contest, he declined to seek a seat as a member of Parliament.

Born into a poor family in a small Quebec town, he became a labor lawyer and became known publicly when he investigated corruption in a government inquiry into the construction industry in Quebec.

## In Lima, Latest Obsession Is Talk of a Coup

Economic and Political Trouble Prompts 'Terrible Sense of Impotence'

By Edward Schumacher  
New York Times Service

LIMA — In this city of five million people, where politics is an obsession, there is much speculation that the Peruvian military might topple the government of President Fernando Belaúnde Terry, who was elected three years ago.

Most people seem to agree that no such action is imminent. Still, it is a daily newspaper subject, and there are almost daily denials by military leaders and government officials that a coup is being planned. Mr. Belaúnde's previous term as president ended with his overthrow by the military in 1968.

The talk seems to be a result of what one leading Peruvian called a "terrible sense of impotence."

The government, which took office in 1980 after 12 years of military rule, "started with incredible support," according to Julio Cotler, research director at the Institute of Peruvian Studies, a private social studies center.

But, unemployment is high, inflation is running at an annual rate of 150 percent and a leftist guerrilla group called Shining Path is increasing its activities. The government is trying to renegotiate a \$12-billion foreign debt.

A flood in the north has lasted six months and has damaged 60 percent of agricultural production, while a yearlong drought in the south has forced thousands of people to migrate to overcrowded cities. The two disasters reportedly have caused a decline of almost 7 percent in the country's gross national product this year.

"Many people now think that the only way to get improvements is with force," Mr. Cotler said.

But Mr. Belaúnde, 70, whose five-year term expires in 1985, has stressed that the fighting is centered in the department of Ayacucho, 200 miles (320 kilometers) southeast of the capital, in an area covering roughly 3 percent of the country's land mass and population.

Two weeks ago, a power blackout, which resulted from bombings by Shining Path, brought much criticism of Mr. Belaúnde for not being tough enough.

The president imposed a 60-day state of emergency, which one newspaper poll said had 55-percent popular support. But it is largely ignored — strikes, political meetings and criticisms of the government continue. Even so, many opposition leaders have the emergency as a misnomer.

Some of the thinking inside the Peruvian military was indicated by a senior military leader, who said in an interview that Peru was "a new country and maybe not ready for democracy."

The leader, who asked not to be identified, said criticism was undermining the government led by Mr. Belaúnde's Popular Action party. Historically, the official said, Peruvian coups have been generated by disgruntled civilians "knocking on the barracks doors." He said some civilians, particularly industrialists, were "already knocking."

Western diplomats say there is no consensus inside the military. The army, they say, has what Peruvians describe as activists, those

willing to take a more political role, and constitutionalists, those stressing the professionalism of the service. But the diplomats say they doubt even the activists in the army want to take over the problems faced by the current government.

Mr. Belaúnde has treated the military delicately. Despite the economic crisis, he has maintained high military salaries and weapons purchases. This year, the air force is purchasing 20 Mirage-2000 fighter

planes from France for a reported price of \$700 million.

The president has also slowly given the military free rein against the guerrillas in Ayacucho. The army reports that deaths have reached 854 this year, nearly half of them in May, when the army took over almost all the fighting.

About 2,000 people accused of being guerrillas are in jail. Meanwhile, the United States, which largely severed its military

aid to Peru during military rule, was reported to be seeking to increase its assistance to the government.

Diplomats said the Reagan administration had included \$3 million in arms credits in the supplemental military-aid budget submitted to Congress for the current fiscal year and had budgeted \$25 million for the 1984 fiscal year, which begins Oct. 1. The money reportedly is to be used for spare parts and light weapons.

## Aid to Nations Hurt by El Niño Caught in U.S. Budgetary Currents

By Philip J. Hiles  
Washington Post Service

WASHINGTON — El Niño, the Pacific counter-current that has caused the worst weather in 40 years in many parts of the world, has also whipped up controversy within the Reagan administration.

The Agency for International Development has asked for \$100 million for emergency aid to Peru, Ecuador and Bolivia, which have reportedly suffered \$1.3 billion in damage from El Niño. But the Office of Management and Budget is "skeptical" of the proposal in a year of huge deficits, according to a spokesman.

The spokesman suggested that

Congress was already too far along in the 1983 budget appropriations process to consider the request for this year.

Twelve feet (3.6 meters) of rain has fallen in some parts of South America, while drought has wiped out two-thirds of the crops in other areas, according to State Department officials. The infant mortality rate and the overall death rate have tripled, the officials said.

Tens of thousands of people are homeless as a result of the worst floods and droughts ever caused by El Niño, Spanish for "the child." This year, the current showed unexpected force.

Trade winds, which result from

the circulation of the air over the equator, normally help push back the current. When the trade winds slacken, the onrushing current warms and humidifies the atmosphere, starting a sequence of extreme meteorological events.

AID officials have said that the issue is political as well as humanitarian, because the disasters represent a danger to the elected governments of Peru, Bolivia and Ecuador.

Marshall Brown, AID's deputy assistant administrator for Latin America, said the three countries "are under siege, not from Marxist guerrillas, but rather from the forces of nature which continue to punish the people and undercut support for the democratically elected governments."

AID recently gave \$52.6 million in Food for Peace aid to the three nations, but agency officials said the disaster is of such magnitude that a significant portion of the entire economic output of the countries has been wiped out.

Although it is now the dry season in Peru and Ecuador, rains continue at what a climate analyst at the U.S. National Oceanic and Atmospheric Administration called a "phenomenal" level.

In other areas, mainly in Bolivia and part of Peru, drought has wiped out two-thirds of the crops, according to AID officials who returned last week from the region.

## Stone, Nicaraguans End Talks; No Progress Seen

Washington Post Service

MANAGUA — The special U.S. envoy to Central America, Richard B. Stone, has ended talks with the Nicaraguan leadership, discussions that skirted around but left Washington and Managua still locked in confrontation.

Mr. Stone said as he left Saturday for Guatemala that the main U.S. problem with Nicaragua's revolutionary government stems from Sandinist support for "guerrilla movements in other countries," a clear reference to the Salvadoran civil war that is the focus of his mission.

The coordinator of the three-man junta, Daniel Ortega Saavedra, said Friday that Nicaragua's main problem is that the Reagan administration has, by backing anti-government guerrillas, has chosen "the way of war" in an effort to "overthrow the Nicaraguan people or bring them to their knees."

Both sides thus restated their positions in a public reflection of what informed sources said went on in Mr. Stone's private conversations with Mr. Ortega and Foreign Minister Miguel d'Escoto Brockmann.

Despite some advance fears, the

sources said, there was no unpleasantness in either meeting although the visit was surrounded by mutual recrimination over the two sides' recent expulsions of diplomats.

The sources added that neither Mr. Stone nor the Sandinists had presented any new ideas for relaxing the tensions that have reached their highest point since the revolutionaries took power in 1979.

On El Salvador, Mr. Stone offered an indication that he might be planning direct talks with the opposition. "I am going to address it," he said of the possibility. Reliable sources said U.S. officials in Mr. Stone's entourage have been in at least indirect contact with the Salvadoran rebels.

## Honduran Army Chief Asks U.S. Commitment On Troop Deployment

By Don Oberdorfer  
Washington Post Service

WASHINGTON — The chief of the Honduran military, General Gustavo Alvarez Martinez, contends that it might be necessary for the United States to intervene with combat troops in the event of an attack on Honduras growing out of the intensified civil war in Nicaragua.

Ending a three-day visit to Washington made at the invitation of the U.S. Joint Chiefs of Staff, General Alvarez said Friday he would like a commitment from the United States that it will "stand with us in the defending of democracy."

If troops of Nicaragua's leftist Sandinist government should attack, General Alvarez said, his forces "can stand the first push," but then "there might be the necessity for the United States to intervene."

Asked if such intervention would require U.S. troops, he replied: "If there's war, the only thing that will solve a war is troops."

Two months ago the Nicaraguan defense minister, Humberto Ortega Saavedra, said his country might retaliate against Honduras support for rightist rebels backed by the U.S. Central Intelligence Agency, who are fighting the Sandinists. However, Nicaraguan units capable of such attacks are reported to be far from the border.

The possibility that the border fighting could spread was among the fears that led Congress last December to forbid U.S. aid to the Nicaraguan guerrillas for the purpose of overthrowing the Sandinists "or provoking a military exchange between Nicaragua and Honduras."

Some in Congress question whether the Reagan administration is complying with the law. A ban on further aid to the insurgent forces within Nicaragua is being considered in the House of Representatives. The Reagan administration and Republican leaders are strongly opposed to such a ban, which is supported by many Democrats.

General Alvarez, in a meeting Friday with editors and reporters of The Washington Post, said he does not expect Nicaragua to attack Honduras, adding "that would be the biggest mistake Nicaragua could make."

A senior Defense Department official said the United States, too, considers it unlikely that Nicaragua will attack Honduras because the Sandinists "can't be sure how

Congress and the United States would react."

The official, who asked not to be identified, said no definite pledges had been made to General Alvarez about U.S. action in any wider war, but that the general was aware of the 1947 Rio Treaty, under which the United States could take military action to assist a Latin American nation under attack.

The Joint Chiefs, with whom General Alvarez met, do not want to commit U.S. combat units anywhere in Central America at this time. They fear an extensive, unpopular involvement like that in Vietnam.

Partly to avoid such a direct involvement, the military chiefs are encouraging Central American leaders to develop hard-hitting, light-infantry units to fight guerrillas within their countries.

General E.C. Meyer, the U.S. Army chief, disclosed Thursday that the Joint Chiefs are giving "high priority" to a study of ways to make General Alvarez's forces more mobile, including building up six airstrips in Honduras for troop-carrying aircraft such as the C-130. General Alvarez confirmed Friday that he had requested airstrips, but said he has asked for only four.

General Alvarez, 45, is considered by many to be a more powerful figure in Honduras than the civilian president, Roberto Suazo Cordova.

## Reagan Defends Watt on Parks, U.S. Programs

Washington Post Service

WASHINGTON — President Ronald Reagan has called U.S. environmental programs "the strongest in the world" and defended Interior Secretary James G. Watt's record in designating federal wilderness areas and maintaining national parks.

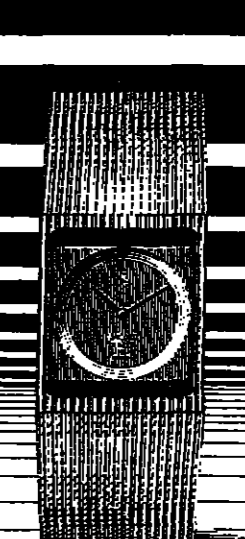
In his weekly radio address Saturday, the president said from Camp David, Maryland, that it was "time to clear the air and straighten the record." He asserted: "I believe in a sound, strong environmental policy that protects the health of our people, and wise stewardship of our nation's natural resources."

Mr. Reagan made only passing reference to the Environmental Protection Agency, the main environmental trouble spot for the administration this year. He concentrated on Interior Department programs and did not mention the most prominent issue there, Mr. Watt's leasing of coal rights on federal lands.

The president has consistently defended Mr. Watt's efforts to increase development of federal lands, and did so again Saturday in backing Mr. Watt's recommendation that 800,000 acres (320,000 hectares) of federally owned land be removed from consideration as wilderness areas.

He also said that Mr. Watt had moved to improve national parks, which Mr. Reagan said "had been allowed to deteriorate to the point that many failed to meet standards for health and safety."

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## NAACP Again Asks Chairman to Resign

By Sheila Rude  
New York Times Service

CHICAGO — By an overwhelming majority, the board of the National Association for the Advancement of Colored People has reaffirmed its call for the resignation of its chairman, Margaret Bush Wilson, and stripped her of all her powers.

The special board meeting Saturday had been called by Mrs. Wilson to discuss her suspension, for eight days in May, of the association's executive director, Benjamin L. Hooks. On May 23, the board had already asked Mrs. Wilson to resign and reaffirmed support of Mr. Hooks. On Saturday, 49 of the 54 members present voted not to accept her explanation, to strip her of her powers and to ask her again to resign.

Mrs. Wilson said in an interview, however, that she had not decided whether to resign, and that her new country and maybe not ready for democracy."

The leader, who asked not to be identified, said criticism was undermining the government led by Mr. Belaúnde's Popular Action party. Historically, the official said, Peruvian coups have been generated by disgruntled civilians "knocking on the barracks doors." He said some civilians, particularly industrialists, were "already knocking."

Western diplomats say there is no consensus inside the military. The army, they say, has what Peruvians describe as activists, those

## President Denies Salvadoran Vote Will Be Delayed

United Press International

SAN SALVADOR — El Salvador's provisional president has announced that elections will be held as scheduled by the end of this year "so the people can choose their destiny."

In an interview Saturday, Alvaro Alfredo Magaña, the provisional president, denied recent reports that elections in El Salvador might be postponed for up to two years.

Mr. Magaña, who is to leave Thursday on a three-day trip to Washington, said his government's desire to achieve peace through democratic methods guarantees the holding of the elections.

Salvadoran officials said last week that elections might be delayed until 1985 because of incomplete preparations, objections to balloting during harvest season and damage caused by rebels.

Mr. Magaña said he did not know the details of a new rebel peace plan presented Thursday in Mexico City but believed the government's peace proposal was sufficient.

## German Protestants Hold Peace Festival

The Associated Press

HANNOVER, West Germany — About 16,000 people, many of them wearing violet scarves symbolizing peace, marched through the streets of Hannover as part of a Protestant church festival that has been dominated by calls for disarmament.

The peace march on Saturday followed a week of events attended by 140,000 people, at which there were repeated calls for disarmament, a reduction of East-West tensions and a reversal of NATO plans to deploy new medium-range missiles in Western Europe later this year. This year for the first time, there was a delegation at the festival from Protestant churches in East Germany, who sent 40 representatives.

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In the Eye  
Of a Deluge  
Hurricane

By Richard Rogers

WASHINGTON — The small silver and gold spacecraft called Pioneer-10, which left Earth 11 years ago, will leave the solar system on Monday, becoming the first man-made spacecraft that has journeyed beyond the planets.

At 1 P.M. Greenwich Mean Time on Monday, Pioneer-10 will move beyond the orbit of the planet Neptune, 2.8 billion miles (4.5 billion kilometers) from Earth, and pass into the void that is no longer interplanetary space.

Although Pioneer-10 is regarded as the outermost of the nine planets that circle the sun, its eccentric orbit carried it inside Neptune's more circular orbit three years ago.

Moving through airless and frictionless space, where the chance of collision with another body is so remote that it is beyond imagination, Pioneer-10 could continue its journey for infinity. Scientists have estimated Pioneer's shortest possible lifetime at 2 billion years and then only if it encounters a shower of cosmic dust or cosmic rays that so corrode its 570-pound (254-kilogram) aluminum frame that it begins to break up.

Space scientists have charted Pioneer's course for the next 800,000 years and calculate that its first encounter with a star will occur in 10,507 years, when it passes the small, red Barnard's Star at a distance of 3.8 light years.

Among the largest stars it will encounter is Altair, which is 10 times brighter than the sun. Pioneer will pass Altair in about 800,000 years. The spacecraft's nearest encounter will be with a "flare" star named Ross-248, which it will pass in 32,000 years at a distance of only 3.2 light years.

By the time Pioneer-10 makes its first stellar encounter, it will have long since lost radio communication with Earth. Its 8-watt radio signal is so weak now that, by the time the transmission reaches

## Influential Diplomat Leaves Bonn for Home

### Swedish 'Insider' Helped Arrange First West German-Soviet Talks

By James M. Markham  
New York Times Service

BONN — The comings and goings of ambassadors are not usually of much moment in Bonn. But a few days ago Sven Backlund left the post he had occupied for more than a decade, depriving West Germany's capital of one of its wisest and most experienced diplomats.

"You can amuse yourself with a specialty; you can amuse yourself with stamps, with silver," the lanky Swede said. "I amused myself in knowing things."

"And then it tends to become an obligation, because if people think you are an expert, you have to have the right answers," he added, finishing with his customary prolonged chuckle.

It was a vintage bit of self-effacement from a diplomat who was credited with discreetly seeding the first Soviet-West German contacts that led to the so-called Ostpolitik of Willy Brandt's chancellorship.

Mr. Backlund was an envoy who remained on intimate terms with the leadership of the West German Social Democratic Party and who also was well-equipped to explain the intricacies of the United States to influential Germans. He also played a mean game of snooker in his manorial residence by the Rhine.

The timing of his leave-taking, in his 66th year, came three months after the curtain was rung down on the Social Democrats' 13-year run in power in West Germany.

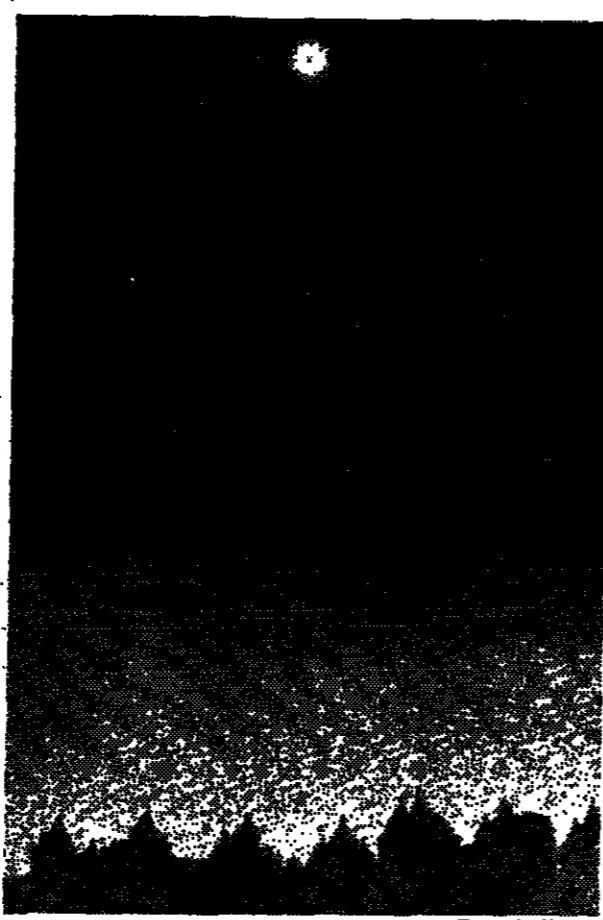
The West German, he said, seem so at ease with their place in the world that "the only thing that can disturb them is boredom."

Mr. Brandt saluted Mr. Backlund as a rare ambassador "who knew the Federal Republic of Germany better than many German politicians."

When the two first became friends in West Berlin in 1964, Mr. Brandt was the city's Social Democratic mayor and Mr. Backlund was the Swedish consul general.

As a Swede, Mr. Backlund had a natural entrée with Mr. Brandt and Herbert Wehner, deputy chairman of the Social Democratic Party, both of whom took refuge from the Nazis in neutral Sweden.

"After the war, when you had to sort of build up German democracy," Mr. Backlund said, "you need



The sky darkened over the Buddhist temple at Borobudur in central Java during the solar eclipse.

## Eclipse of Sun Occurs in Java; 400 Scientists Join Observation

JAKARTA — A rare total eclipse of the sun has taken place over Indonesia.

Saturday morning's eclipse, which lasted more than five minutes, covered a zone 40 miles (64 kilometers) wide and 2,000 miles long in the vicinity of Java. Observers included about 400 scientists from 22 countries.

Two small earthquakes were recorded in central and eastern Java during the eclipse, the Indonesian Meteorology Institute reported. No injuries or damage was reported.

"One of our worst fears was the possibility of heavy clouds obscuring the event," said Dr. Morris Aizenman of the National Science Foundation of the United States. Skies, however, were clear.

Many animals, whose behavior was monitored by zoologists, reportedly went to sleep as the sky took on a dusk-like appearance.

## U.S. Pioneer-10 to Leave Solar System

By Thomas O'Toole  
Washington Post Service

WASHINGTON — The small silver and gold spacecraft called Pioneer-10, which left Earth 11 years ago, will leave the solar system on Monday, becoming the first man-made spacecraft that has journeyed beyond the planets.

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By the time Pioneer-10 makes its first stellar encounter, it will have long since lost radio communication with Earth. Its 8-watt radio signal is so weak now that, by the time the transmission reaches

Earth, it measures one-trillionth of a watt. Most scientists think that they will no longer be able to hear Pioneer's signal in about eight years.

Scientists have been surprised at hearing Pioneer's signal for so long. Not only has its radio transmitter never failed, but its four radioisotope generators that produce power from atomic heat

are still generating enough electricity to run most of its instruments and power its radio.

Never was a spacecraft more aptly named than Pioneer 10. It was the first spacecraft to survive the asteroid belt between Mars and Jupiter and first to survive Jupiter's searing radiation belts that are millions of times stronger than the Earth's Van Allen Belt.

## Inquiry on Dioxin Contamination In U.S. Expands to Add 4 States

New York Times Service

NEW YORK — Officials investigating sites in New Jersey where the toxic chemical waste dioxin might be present in dangerous concentrations have expanded their search to 19 chemical manufacturing sites in New York state outside New York City, Pennsylvania, Maryland and West Virginia.

Testing is to continue at the closed Diamond Shamrock chemical plant in Newark, New Jersey, where U.S. Environmental Protection Agency inspectors first found high levels of dioxin in soil samples, and at nine other New Jersey sites.

Officials said more study of company records and further tests at other sites would be needed before the widespread presence of dioxin could be confirmed.

The Eastern companies were among 91 listed in a 1980 EPA report as pesticide and chemical producers around the country that might have caused contamination by dioxin, which the EPA calls "the most acutely toxic compound made by man."

Dioxin concentrations of up to 1,200 parts per billion were found at the Newark site, with several of the samplings having 500 parts per billion. A safe concentration is less than one part per billion.

## Czechs Quit 2 U.S. Presbyterian Groups Unite

Washington Post Service

ATLANTA — The Presbyterian church, which split over slavery during the Civil War, has been reunited, making it the fourth largest Protestant denomination in the United States.

Ending nearly 50 years of negotiations, 988 church commissioners voted Friday to merge the 823,143-member Presbyterian Church in the United States, the southern body, and the 2,351,119-member United Presbyterian Church in the U.S.A., the northern church. They formed the Presbyterian Church (U.S.A.).

On Saturday, the church elected as moderator the Rev. John Randolph Taylor, 54, of Charlotte, North Carolina.

Starting Monday, the commissioners face a variety of secular and religious issues, including U.S. involvement in Central America, abortion and South Africa.

The split in Presbyterianism occurred in 1861. Southern churches were asked to pledge "unabated loyalty" to the federal government. They refused and formed the Presbyterian Church in the Confederate States of America.

The decision Friday was expected. Both groups overwhelmingly approved the merger plan a year ago. Still, officials expect that about 40 of the southern church's 8,975 congregations may withdraw as a result of the merger.

The vote in the southern church appeared to be unanimous. In the northern assembly, at least one dissenter said he was uneasy about provisions for affirmative action in the merged church.

Seven small U.S. Presbyterian denominations remain split, mostly because of theology.

## India Industrialist G.D. Birla Dies

The Associated Press

NEW DELHI — Ghanashyan Das Birla, 89, founder of one of India's leading industrial families and a leader of Mahatma Gandhi's independence movement, died Saturday during a visit to London, relatives said.

Mr. Birla, widely regarded as India's wealthiest man, was taking his morning walk in London when he became ill. He was taken to a hospital, where he was pronounced dead. The Hindustan Times newspaper, owned by the house of Birla, reported.

K.K. Birla, chairman of the newspaper, said his father would be cremated Monday in London and the ashes returned to India.

The president of India, Zail Singh, in a message to the family, described Mr. Birla as "one of the senior-most and pioneering industrialists... a great patriot and devout nationalist who contributed immensely during the freedom struggle under Mahatma Gandhi."

Mr. Birla was the founder and head of the house of Birla, whose interests range from textiles and publishing to cement, tea, paper, foods, engineering and electronics. He was regarded as an important financier of Gandhi's movement for independence from Britain. Gandhi frequently received visitors at the Birla house, where he was staying when he was assassinated in 1948.

Mr. Birla had gone to London on June 1. At 89, he remained engaged in numerous business activities, and "it could be properly be said that he died in harness," The Hindustan Times said.

Other deaths:

L.P. (Red) Dawson, 76, former head football coach at Tulane University of Louisiana and Pittsburgh University, Friday in Ocala, Florida.

Jenny Serrys Bradley, 97, the Belgian-born, Paris-based literary agent instrumental in the U.S. publication of French writers such as André Gide, André Malraux and Antoine de Saint-Exupéry, June 3 in Cap d'Antibes, France.

Charmion von Wiegman, about 85, an abstract artist who translated the writings of the Dutch artist Mondrian and wrote about him, Thursday in New York.

## British Polaris Tested

The Associated Press

CAPE CANAVERAL, Florida — Two Polaris missiles were fired successfully Saturday from the HMS Revenge, one of Britain's four Polaris-class submarines, in the vessel's second series of test launches in the past week.

## Map

Map

## LETTERS TO THE EDITOR

**Communist Strength**  
Regarding "Intervention in Latin America: A Pessimist's View" (IHT, May 21) by William Pfaff:  
The criticized view that Russians and Cubans possess and can lead out to their clients "a degree of political military potency no one else commands" is neither frightening nor pessimistic, but, unfortunately, merely realistic.

The Russians and the Cubans do not have a Congress, a critical press, a public opinion to worry about, and hence support for their clients can be total, sustained and practically unlimited, even if it means hardships, shortages and other misery afflicting their own people. U.S. support has in all cases been halfhearted, qualified, conditional, unsteady and abandoned halfway through.

What was demonstrated 10 years ago in Saigon is not what is being projected by the warped minds of some writers, but simply this: If a nation does not have a will to prevail, or in the face of political and media opposition is unable to muster that will, the results will be fatal to the country in which it intervenes, and disastrous to itself.

B. EINHORN  
Bendheim, Spain

**Liberals Can Hope**  
The election result in Britain is a clear victory for Liberal forces. It is a breakthrough for the Alliance, which has attracted the support of more than a quarter of the electorate in the first elections in which it presented itself less than 18 months after it was formed.

This must be considered as a sign that there is a hope that the centrist forces, based on the Liberal

and the Social Democrats, will form the government in Great Britain in the not too distant future.

WILLY DE CLERCO,  
President, European Liberals and Democrats.  
Brussels.

**A General Spared**  
Regarding "Court in East Berlin Sentences SS Officer to Life for Massacre" (IHT, June 8):  
It is satisfying to note that at least one man was judged for the massacre of innocents at Oradour-sur-Glane. It is only a pity that his commanding officer, General Heinrich Lammerding, was allowed to die peacefully in bed, and this despite the fact that his whereabouts had been known since early 1968 to the French Consulate in Düsseldorf, where he lived and operated a successful painting business under his own name.

It is correct, unfortunately, that there is no extradition treaty between West Germany and France. But this did not stop the French from kidnapping their own nationals during the Algerian war days to bring them to justice in France.

S.C. SCHIFF,  
Paris.

**Vanishing Forest**  
Regarding "Gloomy Report on Future Called 'Dead Wrong'" (IHT, May 31) by Philip J. Hilt:  
The threat to tropical rain forests is real and immediate. The consequences for mankind of deforestation in the tropics are of the utmost gravity. These facts are recognized by the preponderance of ecologists who have studied the subject firsthand, and are endorsed by the World Wildlife Fund and

the International Union for Conservation of Nature and Natural Resources. Herman Kahn, Julian Simon and the authors of "Global 2000: Revised" are themselves "dead wrong" in suggesting that we have nothing to worry about.

Even government reports to the United Nations acknowledge that tropical forests are disappearing at the rate of 70,000 square kilometers a year. We believe independent scientific surveys that say the combination of destruction and degradation of these forests is closer to 200,000 square kilometers.

With them are vanishing the flora and fauna they shelter — much of it unstudied — and which is irreplaceable value to humanity.

One may debate whether it will take 50, 100 or 150 years for the tropical forests to go at present rates. The thing to remember is that if they go they are gone forever. We still can prevent this catastrophe, but not if we are lulled into the complacency of Kahn and his co-revisionists.

CHARLES de HAES,  
Director General,  
World Wildlife Fund,  
Gland, Switzerland.

**The BBC's People**  
Regarding "The New (Short) Wave of Travelers" (IHT, April 6):  
Clearly, establishing worldwide listening figures and trends is a hazardous business at the best of times. But after more than 35 years of international survey research experience (often in conjunction with Voice of America, Deutsche Welle and Radio Netherlands), the BBC for one is confident that the accuracy of its audience data is as high as it can be in the circumstances.

This evidence indicates that the

BBC has a regular (listening at least once a week) audience of some 100 million adults (excluding China) for its international broadcasts in English and 36 other languages. Similarly, the VOA estimates its audience at 100 million a day, but includes in this figure for China which we do not attempt. No worldwide estimates have been published for either Deutsche Welle or Radio Netherlands, but, except in a few areas, their audiences are much smaller.

Thus, the assertion that "the most listened-to station in the world is Deutsche Welle" is contrary to all evidence and clearly untrue, and devalues the research work being carried out by the broadcasters concerned.

GRAHAM MYTTON,  
British Broadcasting Corp.,  
London.

**In-Flight Smoking**  
As a frequent air traveler — I have crossed the Atlantic 78 times — and as a Canadian citizen who has flown on most major airlines, I feel particularly strongly about the recent fire accident that killed 23 people on an Air Canada DC-9 from Dallas to Toronto.

Considering what I have observed during long and short flights alike, it is surprising that such an accident has not occurred before, particularly in view of the flammability of aircraft interiors.

Shortly after boarding aircraft, or after takeoff, we are told that smoking is not permitted in the aisles or the lavatories. Yet on almost every flight I have witnessed passengers disobeying these instructions without provoking the slightest concern among the cabin personnel, who act only after I point out to them that somebody is walking or going to the lavatory with a lit cigarette.

That is not all. Cabin personnel very seldom ask passengers who smoke in the non-smoking sections to put out their cigarettes. Perhaps the Air Canada accident will lead airlines to better select and train their cabin personnel. Even that, though, will not restore the 23 victims to their families.

G.R. HASTINGS,  
Brussels.

**The Massacres of Armenians: A Horror Story Lasting Decades**  
It is assuredly not too late to return to "Armenian Question: The Roots of Terror" (IHT, March 10), since the article contains an assertion of shocking falsehood.

I read, "In fact, Ottomans and Armenians got on so well together and 'this relationship lasted until the bloody events in eastern Turkey during World War I....' The rest of the article confirms that, according to the writer, the only massacres of Armenians by the Turks took place in 1915.

Whether they killed 1,500,000 Armenians or slightly fewer — or, as appears to be historically established, more than half of the 2,100,000 Armenians living in Turkey before the 1915 massacres — is beside the point. The important

question, the terrible truth, summarized in the article, is as follows:

The first large-scale massacres took place in the period after the Cyprus convention of June 4, 1878, in which Disraeli, then the British prime minister, promised the Turks that he would persuade the Russians to evacuate the occupied territories of the Ottoman Empire before the promised reforms (favorable to the Armenians) were carried out. In return for the services rendered to Turkey by Disraeli and Britain, Cyprus was to be handed over to the British.

The consequence of this was the massacre of hundreds of thousands of Armenians between 1878 and the end of the century, when the genocide took on a new dimension with the 1894-1896 massacres. The pretext was that in 1894 some Armenians had refused to pay a tax. In 1896 the faint-heartedness of Lord Salisbury was to blame. Further massacres took place, mainly in 1897, 1899, 1901 and 1904.

Partially Armenian by descent, I was born in France of a French mother, have always lived in France, and remain outside any political movement. I totally disapprove of all forms of terrorism, and harbor no feeling of resentment toward the Turks of today, nor toward the fellow countrymen or co-religionists of the late Disraeli.

But 1½ million massacred people demand the truth. Nothing more.

M.D. INDJOUDJIAN,  
Paris.

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## April 1971

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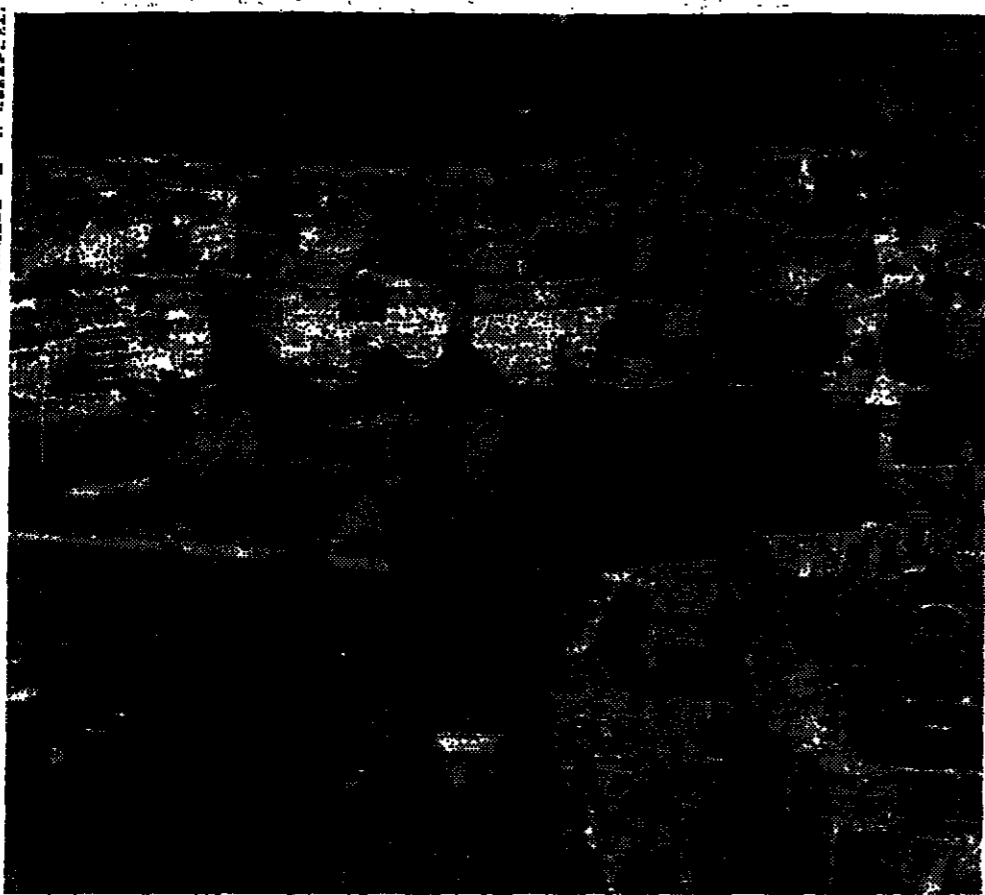
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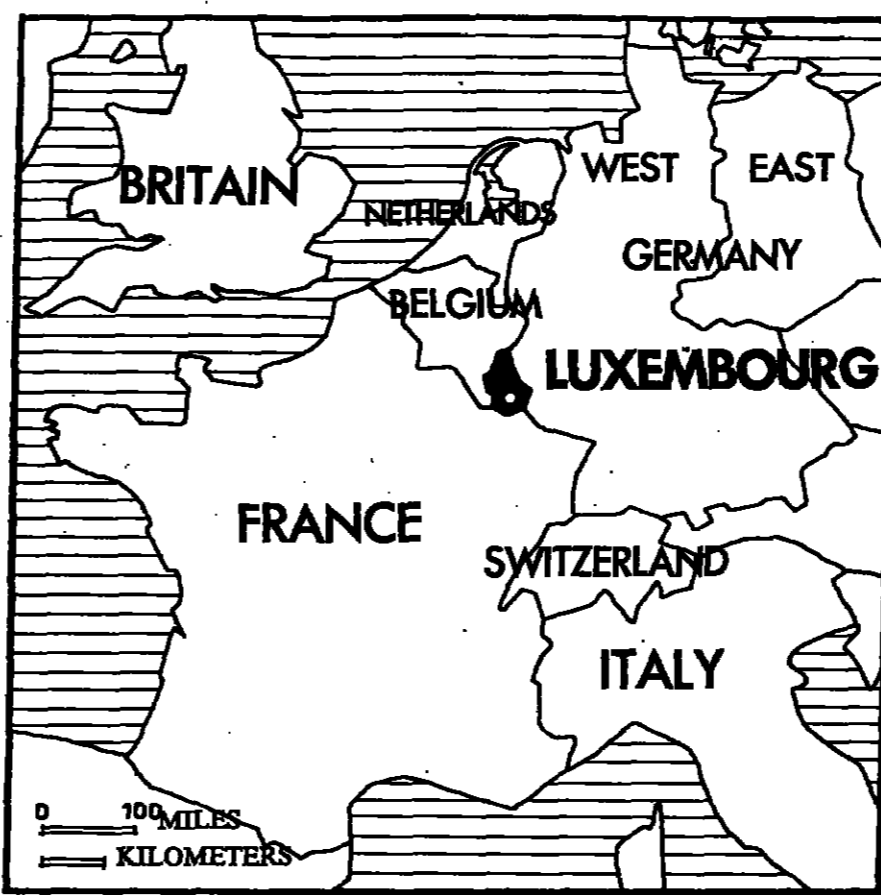
Page 7S

# BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT



Central Luxembourg city.



## Growth Strategy: A Marked Shift To Retail Banking

By Carl Gewirtz

BANKS IN Luxembourg, like those everywhere in the industrialized world, are shifting strategy to minimize the quantity of new business and maximize the quality.

In banking terms, this translates into de-emphasizing the growth of the balance sheet while expanding earnings. And profits these days mean fees rather than revenue generated from the difference between interest received on loans and paid on deposits.

In short, banks here are moving away from their overwhelming reliance on wholesale banking and into private, or retail banking. With a banking secrecy law as strict as Switzerland's, Luxembourg bankers believe they are well placed to compete for a larger slice of this lucrative segment of the market.

Bankers here reason that private clients, or in the jargon "high net-worth individuals," are ready to diversify away from their traditional haven in Switzerland.

Recurrent, albeit aborted, moves in Switzerland to alter the banking secrecy code and the failed attempt to tax fiduciary accounts have driven depositors to diversify their holdings out of Switzerland. In addition, bankers here report, fees charged by Swiss banks compare unfavorably to those charged in Luxembourg. And, not least, services offered by the Swiss are no longer very personalized — leaving room for Luxembourg to improve its own services and, thereby, attract unhappy Swiss clients.

Swiss bankers do not refute these criticisms. They say ruefully that their business has been perhaps too good, resulting in bad service. But if Luxembourg's point to the threat of a weakened secrecy code in Switzerland, the Swiss point out that Luxembourg is lured by what they call the bad economic and financial reputation of Belgium, to which Luxembourg is tied in an economic and monetary union.

Luxembourg itself has problems. ARBED, once the pride of Luxembourg, is in desperate financial straits, which could have an impact on the local banks that have very large loans outstanding or on the labor market if taxes have to be raised to finance the steel company's survival.

As for the link with Belgium, it is not clear how tight that union actually is. The Luxembourg government made no secret of its outrage last year when Belgium unilaterally devalued its franc and, thereby, also the value of the Luxembourg franc.

But whereas last year Luxembourg had no choice but to follow Belgium's lead, today the government has in place at least the theoretical framework by which it could function independently in the monetary field. This is a result of the inauguration this month of the Luxembourg Monetary Institute, which, despite its name, looks very much like a central bank.

Luxembourg officials note that planning for the institute began in 1979, when European leaders began talking about creating a European Monetary Fund and it was realized that Luxembourg would not be able to have its own seat since it lacked the institutional symmetry — basically a central bank — of its Common Market partners.

While officials insist that it would be wrong to interpret the creation of the institute as a threat to the continued monetary union with Belgium, they do acknowledge that Luxembourg has the infrastructure to go it alone and that the institute will be the exclusive international monetary representative of Luxembourg.

The institute will replace the Banking Commission as the Grand Duchy's banking supervisory authority. It will hold the external assets — gold and the quota in the International Monetary Fund — and handle the liquid reserves of the government as well as issue notes and coins. It will also regulate credit creation through rates imposed on the volume of domestic loans banks can make. But unlike a central bank, it will not lend money to commercial banks through operating a discount window or a Lombard facility (loans against collateral).

In any event, that would be minimal since the bulk of Luxembourg banking activity is foreign. Only 13 of the 115 banks operating here are Luxembourg-Belgian institutions. The 30 West German banks constitute the largest national group, followed by 14 Scandinavian banks.

An overwhelming 87 percent of the deposits at the banks are in foreign currency and despite the desire to expand into private banking only 14.4 percent of these foreign currency deposits come from non-banks, virtually unchanged from a year ago.

The bulk of Luxembourg's banking activity up to now has been the so-called wholesale business — buying deposits in the interbank market and using those funds to make loans. Almost 70 percent of that lending has

## Debt Share: \$98 Billion in East Europe, Latin America

Special to the NYT

LUXEMBOURG'S position at the heart of the European Community has insulated it from the worst of the international debt crisis. The most recent figures from the Luxembourg Banking Commission show that at the end of the third quarter of 1982 the center's banks had 7.6 percent of their assets in Latin America and 4 percent in Eastern Europe. The overwhelming bulk of their assets, in fact 43.6 percent of the total, are concentrated in the industrialized countries of Western Europe.

But, bankers say, the statistics do not tell the whole story. "The percentage figure may be small but the absolute figures are very large," the managing director of one of the center's most important West German banks said. Luxembourg banks have \$64 billion out to

Latin America and nearly \$34 billion in Eastern Europe.

The Grand Duchy's bankers have tried to turn the sovereign debt problem to their advantage by stepping up their campaign for a more generous tax treatment of their provisions. Generally, the Luxembourg tax authorities' attitude to provisions has been significantly harsher than that of other nationalities. For instance, Swedish banks are allowed to make general provisions of 4.5 percent, while West Germany allows its banks to make tax-free provisions of up to 40 percent on specific risks. By contrast, the Luxembourg tax authorities allow banks to make tax-free provisions of 1½ percent on unsecured credits. The banks are not allowed to make tax-free general provisions or tax-free provisions against sovereign risks.

The banks' efforts to increase provisions are endorsed by the Grand Duchy's banking commissioner, Pierre Jaans. He wants the banks under his supervision to set aside as much as the fiscal authorities will allow them. "But," he said, "as long as the banks who make provisions do not pay too much in the way of dividends it does not really matter whether they make specific or general provisions. We will only know in retrospect if the banks have overprovisioned." In Mr. Jaans's view that would be to err on the side of virtue. "Banks are not capitalized enough," he said. "We should be able to find some way of returning the provisions to the banks rather than taxing them all away."

Luxembourg bankers are becoming rather impatient with the slowness of the fiscal authorities' response.

Part of the reason for the authorities' caution is the critical importance of bank taxes to the Grand Duchy's budget. In 1981, 38 percent of all the government's direct fiscal income came from the financial sector.

The Luxembourg bankers remember that it took the tax authorities more than two years to find a solution to the problem of profits due solely to the depreciation of the Luxembourg franc against the dollar and the West German mark. The Grand Duchy's largest bank, Deutsche Bank Compagnie Financière Luxembourg, reckoned that its tax liability, because of that problem, would have exceeded 100 million marks in 1982. "Yet, despite the magnitude of the problem, it

(Continued on Page 16S)

## German Presence Still Dominates Euromarket Activities

By Vivian Lewis

THE WEST GERMANS, nearly two decades ago, invented the Luxembourg Euromarket. And they still dominate it today. With 30 banks, the Germans are the leading nationality on the Luxembourg banking scene. Five German banks make up the largest institutions in Luxembourg, with Deutsche Bank Luxembourg in the lead. The four leading Luxembourg banks are ranked sixth through ninth.

So it is hardly surprising that German banks tend to get their way in Luxembourg, for example in negotiating their taxes. As one banker said, "If the Luxembourg authorities make too many difficulties about the provisions we have made, we can always threaten to leave."

Giving teeth to those threats are some other characteristics of German banks in the Grand Duchy, like the fact that they are not very profitable. (Although in Luxembourg, accounting, that may only mean that they are strong enough not to be forced to show high earnings and pay taxes on them.) According to a comparative study by Paribas Jacques Pöse — for 1981 — in terms of return on assets or return on equity, as well as taxes paid, the German banks are merely average.

Signs of disaffection are not hard to find — although they may be merely symbolic. The Landesbank Stuttgart was one of the banks that closed its doors in Luxembourg. Two leading German banks, West LB International (ranked fifth) and Commerzbank International (ranked third) at the start of

1983 switched the currency in which they keep their books from Luxembourg francs to German marks.

The international business of German banks, whose share at the end of 1982 was 46 percent of the total, down from 51 percent a year earlier, also is moving out of Luxembourg. (In absolute terms there was a modest increase from DM 32.1 billion to DM 32.6 billion.) The London market, where German banks operate through branches rather than subsidiaries, almost certainly took up the difference. Branches booked 143 billion DM, up from 9.9 billion, at the end of 1981. This amounted to 20.3 percent of the total, against 15.7 percent a year earlier.

For German borrowers, according to the Bundesbank, Luxembourg is still the place to go for foreign loans. At the close of 1982, 45 percent of all short-

term loans from non-domestic banks to German corporate clients were done out of Luxembourg. The figure for long-term loans was 32 percent. Presumably, some of the lending was by non-German banks.

Various factors have made German bankers shy away from their previous commitment to Luxembourg. The devaluations of the Luxembourg franc have added to costs. To maintain their capital at 3 percent of DM loans, banks have had to add to equity or issue new subordinated loans, all of which costs money. To match the currency in which they keep their accounts to the currency in which they lend, some German banks are using the mark. But other German bankers dislike the trend. "We are a Luxem-

(Continued on Page 16S)

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## After Ambrosiano: The Case for Rules

BANKING COMMISSIONER Pierre Jaans is perfectly frank about it: "In a way we have been fairly lucky. Had Roberto Calvi wanted to open a bank in Luxembourg before his first condemnation, it would have been difficult to say no." His reputation and credit standing were good and we would have had to grant a banking license.

As it is, Mr. Calvi's Banco Ambrosiano never did get a license to operate a bank in Luxembourg. All it managed was the establishment of a holding company, Banco Ambrosiano (Holding) S.A., which opened offices at 25a Boulevard Royal. The offices and the brass plaque are still there on the fourth floor, although the only people behind the doors now are court-appointed auditors.

The holding company, non-bank though it may have been, still managed to draw a blue-ribbon group of 88 interbank lenders, among them 12 Luxembourg banks. Yet, the victim banks are not claiming that they failed to realize that Ambrosiano in Luxembourg was not in fact a bank. "If a person in a bank was victim of this confusion, he could not be a person dealing with finance," Mr. Jaans said. "He might be a chauffeur, perhaps."

This did not make Mr. Jaans's task any easier. While he said that he never expected Banco Ambrosiano "to sign a blank check" to pay back its loans, "we expected — and people did at the time — that they would sort out the problem and see what they could do financially." So the Luxembourg authorities, like Ambrosiano's creditors, were surprised when nothing of the sort occurred.

Mr. Jaans reacted with speed to protect against the potential for interbank distinction between banks operating on the interbank market and against the tarnishing of the good name of the "place." Other Italian banks working through holding companies (they had operating subsidiaries in Luxembourg as well) were required by the commissioner to provide undertakings, not necessarily public, that they would stand behind their subsidiaries, although held through holding companies, for the sake of "credibility." It was left up to the banks what form the parent guarantee would take.

Mr. Jaans' actions were leaked by the Italian central bank, and plans are now afoot to restructure some of the four Italian banks using holding companies. Mr. Jaans thinks that the incident actually strengthened Luxembourg's reputation for sound banking, although he said that "an American regional bank that intends anyway to cut its interbank lines might use 'Ambrosiano' to cut Luxembourg out."

"It was an interesting story," said Klaus J. Zapf, head of the Dresdner Bank Luxembourg subsidiary, one of the losers. "Our customers did not react negatively. And now it has disappeared as an issue of interest."

"I don't think Ambrosiano was a major problem for any of the American banks here," said Oswald von Gierke, at the Chase Manhattan. Another banker dismissed the whole thing: "Ambrosiano had more to do with crime than with banking," he said. But Eikehard Storch, head of

(Continued on Page 15S)

### Luxembourg as a Financial Center Development of Financial Assets 1968-1982

Development of Total Assets		
Year End	Number of Banks	Total Assets (billions of Belgian francs)
1968	26	90
1969	32	136
1970	37	236
1971	44	343
1972	53	517
1973	75	832
1974	78	1,067
1975	80	1,478
1976	80	1,709
1977	90	1,852
1978	97	2,509
1979	107	3,203
1980	111	3,917
1981	115	5,081
1982	115	5,987

### Geographical Distribution of Total Assets in Respect to Parent Companies

Percentage of Shares in Total Assets (Dec. 31, 1983)		
Number of Banks (April 11, 1983)		
Germany	30	50
Belgium/Luxembourg	13	14
Scandinavia	14	8
France	8	7
Switzerland	8	7
USA	10	3
Italy	7	2
Japan	4	1
Other Countries	12	2
Joint Ventures	9	6
Total	115	100

## Duchy Manages to Keep Recession at Bay

SEEN FROM the air, the neat patchwork of yellow and green fields and the jagged fissures of deep and shady ravines that make up most of the landscape of Luxembourg help to illustrate the current checkered pattern of the Grand Duchy's economy.

The worldwide recession, severe structural problems in ailing sectors like the steel industry, growing unemployment and widening deficits all have left their mark on the smallest of the countries in the European Community.

Yet its small size and population — 365,000 — has helped to keep the worst ravages of the economic downturn at the Grand Duchy's doorstep. Its politicians, economists, bankers, traders and farmers have managed to cope with the new pressures and have slowly begun to work their way out of the presently difficult situation.

"We have our problems but we are learning to cope with them," was how Finance Minister Jacques Santer summed up the situation. While wrestling with a decline in industrial production, negative economic growth and ballooning trade deficits, the Luxembourg government has come to grips with unemployment, inflation and budget shortfalls.

The banking sector, which according to Mr. Santer employs 8 percent of the 141,000 labor force, occupies a weighty position in the government's strategic economic planning.

According to government estimates for 1982, the banking sector is expected to contribute about 30 percent of direct fiscal income and to account for 15 percent of government revenues. The sector, while putting the boom years of burgeoning profits firmly behind it,

still contributes heavily to the government's tax coffers and helps to provide a strong vein of security.

The security is needed. The major industrial branch, steel, is deep in the red for the eighth consecutive year and no end is in sight for the financial and structural problems of the Luxembourg-based giant ARBED, Europe's fourth-largest steel producer.

Acknowledging that the main problem is to restructure the iron and steel industry, Mr. Santer remarks: "We can compare ourselves with Biblical Egypt's recurring problems with the seven-year cyclical disasters of the Nile, with the exception that we are now in our eighth year."

Since 1974 Luxembourg has cut its manpower in the steel sector by 47 percent, second only after Britain. Steel output in 1982 was 45.6 percent down on 1974 levels and the industry's share in gross domestic product has sunk from 21.4 percent in 1974 to about 10 percent.



Jacques Santer

percent reduction, already undertaken by ARBED between 1976 and 1980.

Since the beginning of this year, the future direction to be taken by Luxembourg's steel policies has been the subject of an in-depth review under pressure from current restraints.

The constraints in question stem from the unprecedented slump in the steel market in the fourth quarter of 1982 and the grim outlook, the progressive deterioration of ARBED's finances, the urgent need to restructure the company's balance sheet and the negative aspects of the Commission's initial response to the restructuring program.

In the face of these constraints, the results negotiated last year within the framework of the so-

called tripartite iron and steel conference, made up of representatives from ARBED, the Luxembourg government and trade unions, proved inadequate and the talks had to be resumed to modify the agreement worked out in 1982.

In the meantime, pressure from the Commission had led the Luxembourg government to commission an independent expert, French industrialist Jean Gandois, to prepare a report on the overall situation of the Luxembourg steel industry. Mr. Gandois was asked to analyze the true economic situation of the Grand Duchy's steel industry and of ARBED's steel industry's steelmaking operations in first-half 1982, the giant's strengths and weaknesses, and possible industrial, social and financial strategies. The report was to be used as the basis for establishing the outlines of a new steel policy, adapted to take account of changed circumstances.

From the report's findings, which are still being studied in depth by the tripartite parties, it appears certain that the original restructuring plan agreed on last year will have to be extensively modified and that the restructuring of ARBED's balance sheet will have to be undertaken in all haste, company officials said.

It is within the context of ARBED's severe troubles that the Luxembourg government has put together an 11.5 billion franc austerity plan, which it hopes will go some way to ameliorating the strains of unemployment in a sector where the workforce has been pruned by more than 8,000 since 1974, the year the steel crisis really got under way.

Mr. Santer said the government plans to finance the austerity program.

(Continued on Page 16S)

## BANKING AND FINANCE IN LUXEMBOURG

## Domestic Banking: A Key Role in Expansion

By Craig Anderson

IT WAS A farsighted man who, in 1856, when founding Luxembourg's first bank, called it Banque Internationale. The bank was, in fact, founded by a group of Ger-

man bankers whose idea was to create an international financial center on their tiny neighbor's territory. But not even these pioneers could have imagined what would grow from their initial venture. From such humble beginnings,

the mold was cast that has shaped the development of Luxembourg into one of the world's most important banking centers — second only to London in the exclusive international financial league. As in 1856, when the main shareholders

of Banque Internationale, known as BIL, came from across the Moselle, so today all Luxembourg's own banks, apart from the state savings bank, have had to look for shareholders outside the confines of the Grand Duchy's borders.

The emergence of Luxembourg as a major financial capital has not happened overnight. The cautious, conservative approach over the last century and a quarter reflects the character of the Luxembourg people. And despite the influx of foreign banks since the banking explosion began in earnest 25 years ago, the country's domestic banks have played a key role at every step of the way. As far as national banking transactions are concerned, both in the field of retail banking and commercial operations with Luxembourg-based firms, the domestic banks hold sway.

"I would say around two-thirds of the domestic market is in the hands of a small number of domestic banks — the state-owned Caisse d'Epargne, Banque Generale de Luxembourg and Banque Internationale," said Marcel Schleder, president of the Luxembourg Association des Banques et Banquiers and a director of BIL. "The other third is held by the smaller Luxembourg banks, the agricultural co-ops, and also the French banks, which were the first foreign banks ever to set up here in Luxembourg."

In the early 1960s, the country was home to fewer than two dozen different banks; at the last count, 115 banks were established in Luxembourg, almost all the newcomers being subsidiaries of large foreign banks. Although mostly concerned with the Eurobond markets and the syndication of large loans, these banks are also making inroads into the domestic market. However, the Luxembourg banks refuse to be intimidated by such moves.

"Increasingly, these international banks are doing customer business here but that is not particularly worrying for us," Mr. Schleder said. "This is a very small place and home customers are not so important for us now. There are limits to the encroachment of other banks onto this market."

While the ability of foreign banks to muscle in on the domestic retail banking scene is constrained by the size factor, the same cannot

be said for the potential of the Luxembourg banks to expand into the domain of their foreign counterparts. The foreign banks are making much greater efforts to entice consumer business from abroad by offering better retail facilities for foreign customers who wish to hold Luxembourg bank accounts. "The aim is to create a kind of Switzerland within the European Community," a leading foreign banker said.

The domestic banks are confident that some of these private customers will deposit their cash with Luxembourg banks rather than foreign ones. The potential for extra business here could far outweigh any losses caused by the foreign banks managing to coax some of the Grand Duchy's 355,000 inhabitants to switch their savings in the opposite direction. Everyone realizes, however, that the major expansion will lie with the burgeoning Eurobond markets.

Although commercial banks throughout the world reacted cautiously last year, the deepening indebtedness of many developing countries acting as a brake on large syndicated loans, Banque Generale in its annual report describes 1982 as "a great vintage year in the short history of the Luxembourg capital market." The Eurobond market took off like a rocket, with Luxembourg issues jumping 79 percent from \$24.34 billion in 1981 to \$43.65 billion in 1982, out of a global total of \$180 billion.

It is difficult to separate out the share of these operations accounted for by the domestic banks but Mr. Schleder reckons the main commercial banks devoted between 30 and 40 percent of their entire operations to international business last year, a proportion he expects to increase considerably. Even the state savings bank, whose activities are currently split 9 to 1 in favor of domestic operations, is likely to seek to enlarge its international profile in the future.

"Over the next five years I think international business will probably grow to a level of 50 percent — and maybe more — of total business for the Luxembourg banks, with the percentage much higher for the larger ones," Mr. Schleder said. It would be a mistake, however, to believe that the Luxembourg banks have been riding along on the crest of a wave created by banks from abroad.

The country's three leading commercial banks (Continued on Page 10S)

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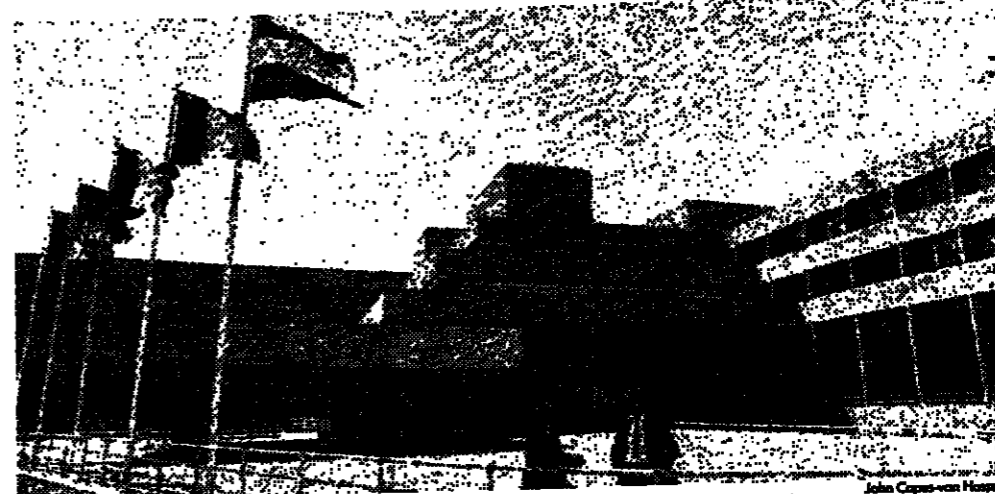


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Blvd. Royal, the Grand Duchy's main banking street.

## A Shift to Retail Banking

(Continued From Preceding Page)

been concentrated in Western Europe, compared to an average of 50 percent for European banks overall. However, the concentration of loans to financially troubled Eastern Europe and Latin America is higher in Luxembourg than the European average. Loans to Eastern Europe account for 5.8 percent of the foreign loan portfolio of Luxembourg banks and loans to Latin America account for 9.4 percent of the total, compared to 4 and 7.6 percent, respectively, for European banks overall.

The ability of banks here to fund themselves in the interbank market did not suffer last year following the collapse of Banco Ambrosiano in Milan and its Luxembourg holding company, Banco Ambrosiano Holdings. At the time, it was rumored that the reputation of Luxembourg and all banks doing business here would suffer as a result.

But Banking Commission statistics show an insignificant \$600-million decline in Eurocurrency deposits with Luxembourg banks in the third quarter, compared to the first quarter. The most significant changes were an increase of \$2.7 billion in dollar deposits and declines of \$2.6 billion in DM deposits and \$2 billion in Swiss franc deposits. As a result, Luxembourg's share of the Eurocurrency deposit market dipped to 8.8 from 9 percent.

The relatively heavier concentration of loans to Eastern Europe and Latin America also is shrugged off as a result of the impressive profits performance of the banks. Earnings before provisions for bad loans rose 50 percent to 56 billion francs last year after rising 68 percent a year earlier.

Reported 1982 profits after provisions were a mere third of the total, or 18.4 billion francs, a rise of 21 percent from 1981 when 60 percent of profits were set aside for provisions.

Luxembourg analysts attribute the sharp rise in profits to a number of factors: a significant increase in the margins charged on new syndicated loans; the decline in short-term interest rates, creating a favorable impact on the financing of fixed-income assets, and a change in the structure of banks' financing.

In 1979, Banking Commissioner Pierre Jaans said in an interview, Luxembourg banks matched one unit of less expensive non-bank funding with almost eight units of the more expensive interbank funding. But by the end of last year, this ratio had been cut to 1-to-3 — meaning a marked improvement in the profitability of making loans tied to the interbank rate.

The banks will also be receiving a powerful boost in profitability from their provisions for bad loans — the result of lower corporate taxes and extra income. The set aside over the last two years means the banks have slightly more than \$1 billion to finance loans on which they pay no interest at all. They earn as net profit not only the margin on the loan but also the full London interbank base rate.

The tax treatment of these set asides will be assessed when the authorities analyze the accounts in 1985. In the meantime, the banks get a free ride.

At the same time, however, the nature of the Eurobond market is changing. Syndicated loans are no longer the growth area they once were and while margins on loans are increasing so are the risks. Loans for the better rated borrowers are now largely the province of North American and Japanese banks, which underwrite huge portions or

which have the experts to structure complicated project financings and earn the big fees.

Likewise, in the Eurobond market in which the Luxembourg-based banks played a leading role in the early days. Today, however, issues are bought by a single (U.S. or Swiss) underwriter (for a big fee) and then offered to smaller banks, that more often than not give up most, if not all, of their commissions to place the paper.

Luxembourg banks do have a grip on the market for bonds denominated in European currency units, but the volume of business is not enough to generate important profits. So Luxembourg bankers are convinced that their future growth lies in the private banking market, where advisory fees, custodian fees and trading commissions can add up to substantial profits.

Bankers here talk excitedly about establishing private entrances and plush reception rooms for wealthy clients to avoid the bustle of the public banking hall. But some Luxembourg bankers question whether the banks are capable of producing anything more than the frills of private banking.

"There is no great tradition of portfolio management here," one banker said, "so the banks will have to go out and buy talent. But it will be difficult to attract. Luxembourg is a dull city and is no tax haven for people working here." He questions whether the banks are prepared to pay the price needed to attract foreign talent, adding that this includes software experts to establish the computer systems analysts will need.

"Luxembourg has remained very traditional," he said. "There are no money-market funds or specialized venture capital funds based here. We could do a lot, but it will require a change in mentality."



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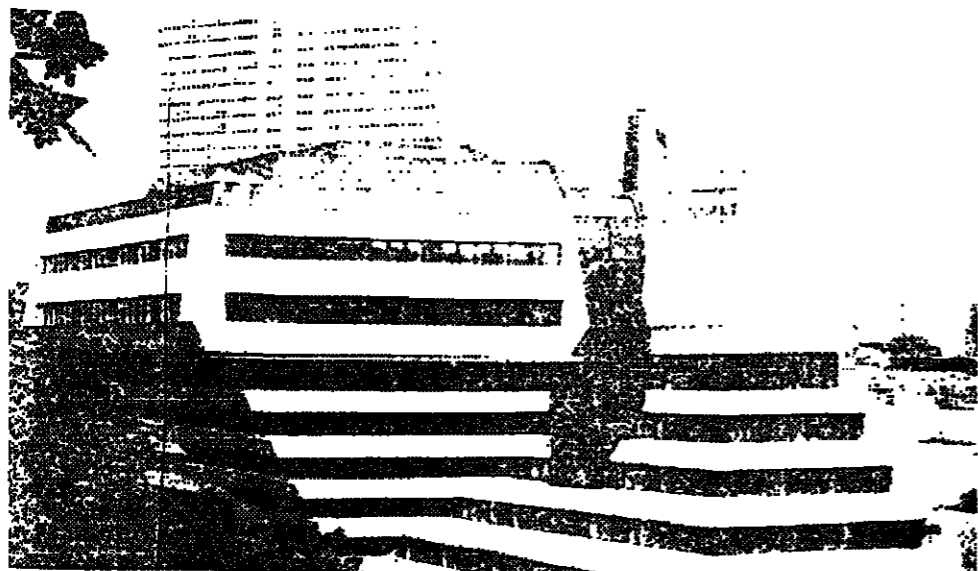
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## BANKING AND FINANCE IN LUXEMBOURG

## EC Membership: A Source of National Pride



The European Parliament building, Kirchberg European center is in the background.

## Newest Bank Sets Strategy Of World Trade Financing

LUXEMBOURG'S newest bank, International Bankers Inc. opened last month. IBI, with largely Saudi funding and French management, will be moving by winter to new quarters along a much more conventional banking street — and it will be anything but a conventional bank.

The bank, controlled through a Curaçao holding company capitalized at \$160 million (of which \$75 million has already been subscribed) will engage in some rather specialized segments of banking, among them international trade financing, above all between the Middle East and Europe — in oil, gas, sugar, grains and cement. "This will not be commodity trading or buying and selling hog bellies," said Alan Field, one of the two Luxembourg-based general managers. Another line of business will be serving a certain number of clients for placements on the Euro-market and, eventually, elsewhere.

In the business of portfolio management, IBI has a distinct advantage — the high-net-worth Middle Easterners who put up its own capital. Among them are Adnan Khasshoggi, Triad and the Saudi Cement group, headed by Sheikh Abdullah Broom, and most importantly by volume, Akkram Ojeh's Techniques de L'Avant Garde (TAG). These men will provide a Gulf connection to IBI. Another area of banking operation is less startling: commercial bank lending to European corporate clients.

Mr. Field, 40, formerly headed the Bahrain office of Crédit Commercial de France. Another ex-CCF official at the bank is Ayman Durand de Saint-André, the other general manager. They will be joined next month by the new chairman of the Luxembourg bank, Jean de Roquembourg, as soon as his resignation as general manager of CCF takes effect.

Other executives from CCF at the new bank include its counsel, Paul Monory, and the chairman of the Luxembourg holding, Jean-Maxime Lévesque. Mr. Lévesque in the French election campaign tried to rally the bank's shareholders and clients to oppose the Socialists and resigned when his bank was nationalized. He denied that he staged a raid on CCF to staff his new bank, but he admitted that an element of politics came into play. In France today, he said, "people can no longer engage in traditional banking." As a result, "people are reacting," he added.

Mr. Field said that the bank has been active in engaging staff during its first month of operation. "We are making a veritable Tower of Babel here: not just French, but British, Belgian, German, Luxembourg — and we are expecting a Lebanese," he said. "We are trying to have everybody sharing a team spirit, which is easier to say than to achieve." By autumn, the staff, which has to perform head-office functions as well as engage in its specialized banking businesses, will have reached 30 persons. By then,

IBI will be busy in getting its first subsidiary set up, in Switzerland, for portfolio management. New York will be next.

The Luxembourg banking world is looking with considerable favor at the newcomers, Jacques Poos, at Paribas, said: "It is a good sign that international specialists like Lévesque and Roquembourg choose Luxembourg." Others are impressed that IBI (as opposed to the holding company) was capitalized at \$50 million, when only \$7 million was required. "IBI has a lot of capital it can put into Eurobonds," said Edouard Champion at Bank of Boston.

But the most cogent comment came from a bank regulator. "They have to succeed," he said. "If their Luxembourg bank is not successful they can't pull out. So their motivation must be strong." Another banker said that "at least they start out knowing about the country risk problem."

The idea of putting together Arab capital and banking expertise is an old one. In Luxembourg, Bank of Credit and Commerce International is an example. The difference is that, although many of them would like to play down the political implications of their joining what Luxembourgers call the "Lévesque bank," IBI's executives are *émigrés*. Ideology may not have been the sole motive for coming on board, but it must have counted for something in the decision of the CCF contingent.

— VIVIAN LEWIS

MILLIONS of dollars worth of postage stamps, telephone calls, hotel reservations and taxi fares are some of the more tangible benefits brought to Luxembourg as a direct consequence of the country's membership of the European Community.

Although now largely in the shadow of Brussels as a center for the EC's lumbering bureaucracy, the Grand Duchy is proud of its tradition as the very first host of the fledgling EC, which began to flourish in 1952 with the establishment of the European Coal and Steel Community. More than 30 years later, Luxembourg is clinging tenaciously to the other EC institutions — such as the European Investment Bank, the European Court of Justice and the administrative headquarters of the European Parliament, which have subsequently been established here.

People admit that despite the bonanza for the post office, the phone company and the hotel proprietors, the influx of several thousand mostly highly paid foreigners has brought its disadvantages in terms of pushing up house prices, rents and the overall cost of living.

But this was in the early days, during the 1950s when the main wave of newcomers arrived. Today, the effect is minimal. One gets the impression, in any case that in Luxembourg, the generally high standard of living for a large proportion of the population has not made it too difficult for the man in the street to cope with any problems of this score.

"In a small-scale economy such as ours, it makes a great difference to have so many European civil servants: these people have to be housed and they have to buy food, clothes and everything else," said Collette Flesch, Luxembourg's foreign minister. "The presence of the European institutions in Luxembourg has brought a lot, not only in economic and political terms but also, I think, in general cultural terms. I feel our community has become richer because of the presence of people from throughout Europe."

However, the country's leaders view the presence of the various EC institutions far more in terms of their fundamental political significance than in terms of the day-to-day financial benefits provided by a clutch of futuristic EC buildings nestling on the windswept Kirchberg Plateau and their multinational contingent of administrators, lawyers and linguists.

Politically, Luxembourg is proud of its membership of the 10-nation European Community and believes

that its international stature has been increased as a result of it. But it is not the case that tiny countries that join larger groupings tend to lose their own national status and identity? Not so with Luxembourg, Mrs. Flesch said.

"If, in this day and age the

bourg's "Centre Européen" now lies empty. The authorities of the Grand Duchy who financed the building to the tune of \$35 million are, understandably, not amused.

Many parliamentarians and civil servants would dearly love to see everything gathered together in one

achieved with modern techniques in telecommunications and such like. I think a lot could be done to improve working conditions and facilities if we drew more on these new technologies. We feel very strongly about it and we think, particularly, that the country that was

success or not, was willing to take the risk to invest and to commit itself."

It is obvious that EC activities have brought extra prosperity to the Grand Duchy. It has been estimated that postage costs can go as high as \$50,000 for each letter sent out, depending on the number and location of the recipients. Also, the development of international banking in Luxembourg owes some of its acquired respectability to the fact that the EC's financial institutions are also based there in order to use the facilities for easy access to the financial markets. But all this is seen merely as a welcome bonus rather than the underlying reason for hanging on to all those clacking typewriters and busy interpreters' booths.

These are the spinoffs. The benefits, as far as the government is concerned, are counted in terms of the country's heightened political status. What more could a country of 999 square miles (2,597.4 square kilometers) ask for?

— CRAIG ANDERSON

As a town almost exactly in the center of the initial six-nation EC, clearly Luxembourg had, and still has, a healthy claim to being host city for the Community.

Grand Duchy of Luxembourg were on its own, we would probably not be very important in the concept of nations," she said. "We're now members of the European Community, which is an integrated economic entity that matters on the world scene. It's not that we're the most important member state, of course, but in our quality as a member of the community we matter more than if we were just the Grand Duchy of Luxembourg."

As a town almost exactly in the center of the initial six-nation EC, clearly Luxembourg had, and still has, a healthy claim to being host city for the Community. It is equidistant from Brussels and Strasbourg, where the other Common Market offices are situated. Many other EC governments support the Luxembourg view that it is politically important for the major EC institutions to be situated in one of the smaller member states.

In 1952, Luxembourg was the sole location for the Coal and Steel Community. Today, it shares the honors with France and Belgium, not because EC governments feel it is necessary to divide up the cake but mainly because the community's Council of Ministers has proved unable to come to a decision over locating all the institutions in the same place.

Weary members of the European Parliament are affected worst by this indecision. Their monthly assemblies take place in Strasbourg, all committee meetings are held in a specially constructed building near the offices of the EC commissions in Brussels and their administrative headquarters remain in Luxembourg. The Parliament used to hold half its sessions in Luxembourg but two years ago its members decided — illegally as far as the Luxembourg government is concerned — that the situation had to be brought under control. Their Strasbourg meetings are held in a building borrowed from the larger but less influential Council of Europe, while a debating chamber tacked on to the back of the administration offices at Luxem-

place. Given the choice, they would probably settle for Brussels. It would put an end to the constant convoys of cars, vans and trucks that every week carry tons of documents and the occasional dignitary between the three places of work. Transport costs are estimated to amount to between \$25 million to \$35 million a year.

"It doesn't seem to me to be absolutely necessary to have all the institutions located in one place," Mrs. Flesch said, defensively. "Particularly now with the progress

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	per 31.12.82 - 1981 Lfrs. = 214 US \$		
Net Profit	329	360	405
Distributed profit	138	159	160
Net dividend per share	Lfrs. 215	Lfrs. 225	Lfrs. 225
Cash flow *)	672	1,152	2,392
Total Assets	132,361	178,240	199,495
Loans and advances	35,359	41,792	56,346
Due from banks	65,984	194,309	108,116
Due to banks	30,602	40,768	34,668
Customers' deposits	86,147	118,761	143,451
Own resources incl. borrowed capital	3,454	3,604	4,831

\*) Net profit plus allocation for depreciation and provisions after deduction of the total expenses of the previous year.  
(The audited balance sheet and profit and loss account are published in the "Mémorial Public" of Banque Internationale à Luxembourg. For your copy of the "Mémorial Public" in English, French or German please contact our Head Office in Luxembourg.)



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## BANKING AND FINANCE IN LUXEMBOURG

### BCCI: Success Story for a Local Bank

APART FROM two government banks, Luxembourg has five native banks, all controlled by Luxembourg interests directly or through a Luxembourg holding company. Each of the five has a foreign affiliation: Banque Internationale, with the Brussels-Lambert banking group; Banque Generale, with Société Générale de Banque; Kredietbank Luxembourg, with the third-largest Belgian bank with which it shares the name, and Trade Development Bank, which is losing its special indigenous quality as a result of the takeover by American Express International (of Geneva, and ultimately, New York) and which will be replaced in this respect by a newcomer, International Bankers Inc. The fifth, Bank of Credit and Commerce International, despite its Arab capital, is considered a Luxembourg bank because it is controlled by a Luxembourg holding.

For years the rapidly growing

BCCI has been looked at askance in London banking circles. By offering 24-hour banking at tourist centers in central London, that quintessentially 9-to-5 banking center, BCCI attracted envy as well as suspicion, particularly because it did so well. Today, the 10-year-old bank has an asset base of \$9.6 billion and is growing at a compound annual rate of 30 percent. It has 28 branches in central London alone, as well as 18 other branches throughout Britain and the Isle of Man. By the end of the year, according to S. Akhlaque Hussain, the general manager, there will be 35 branches in London, "to appeal to Arab travelers and the local clientele."

Profits for 1982 soared to \$135.4 million, up from \$64.8 million in 1981. A number of branches were opened by the group, including a representative office in Peking and banks in Botswana and the Maldives, bringing a BCCI presence to

57 countries. This year, Mr. Hussain said, the bank plans to expand its operations in Canada, where it already has four branches.

The BCCI phenomenon may be slowing down, but it is far from ended. "The next time you come to see me, you will find a longer list of countries," Mr. Hussain said.

Shareholders have been generous. Instead of having to pay dividends, BCCI has issued new shares and put the money back into the bank. Services and fees have helped the bank create a market for itself, but profits are not generated by the relatively high liquid position that handling foreign exchange and travelers' checks requires. The bank, from the start, has also gone in for short-term trade financing.

But in a way, the explanation may be the business BCCI did not get into. "We stick to the business we know," Mr. Hussain said.

"That is the main reason we have not burned our fingers in Latin America or Eastern Europe" (The bank is absent from the East bloc entirely, and apart from representative offices in Colombia and Venezuela, virtually absent from Latin America and the Caribbean outside havens like Panama and Grand Cayman.) It has shunned the Euro market too. "We don't want our name to be on bank notes," Mr. Hussain said, referring to the advertisements banks place when they have syndicated a Euro bond or credit.

As outsiders praised the BCCI dynamism under Agha Hussain Abedi, who founded the bank with a perfect sense of timing just months before the OPEC price rise of 1973, "But they can't keep it up, they will move toward being a bank like any other before long," he said.

—VIVIAN LEWIS

### EIB Forecasts Continued Expansion

By Michael Metcalfe

AFTER five years of exceptional rapid growth, the European Investment Bank ranks second only to the World Bank among supranational lending agencies. And the EIB, overlooking the banking heart of Luxembourg City, has great hopes for a further four or five years of relatively sharp expansion.

Created in 1958 by the Treaty of Rome, which established the European Community, the EIB is an independent public institution within the community that prides itself on being, above all, a shrewd and practical bank.

"We are not a fairy godmother institution; we have to be hard-nosed, working on a sound financial basis, operating on borrowed resources and enjoying the full confidence of the financial markets," said one EIB official.

The bank's role as a financing instrument inside and outside of the Common Market has mushroomed over the past five years, and its lending and capital resources have done the same. Its total subscribed capital was doubled in 1981 to 14.4 billion European Currency Units (about \$13 billion), pushing its lending capacity from about 18 billion ECUs to around 36 billion.

The subscribed capital — which comes from EC member-states, with the bulk contributed by West Germany, France, Britain and Italy — determines the total available for loans and guarantees outstanding. These may not exceed the ceiling of 250 percent of capital, or the

36 billion ECUs mentioned above. At the end of 1982, the total outstanding was 20.7 billion ECUs, well within the limits and a healthy indication of the bank's resources.

The major portion of its financial clout, however, derives from borrowings — principally public or private bond issues raised on capital markets inside or outside the EC. From 1961 to 1982 its borrowings totaled 18.6 billion ECUs. The bank enjoys a high credit standing, reflected by its Triple-A credit rating in the United States. Its bonds are quoted on the world's major stock exchanges.

Since its creation, the bank has provided financing of about 25.8 billion ECUs, with the bulk (about 22.5 billion ECUs) going to Common Market countries. More than 60 percent of the latter sum has been provided since 1979, illustrating the bank's rapid growth in recent years. In 1982, total financing reached 4.7 billion ECUs, with more than 4.2 billion of this going to Common Market nations.

The bank sets no fixed lending quotas inside or outside the European Community. A large part of financing is concentrated in the economically hardest hit countries and districts of the Common Market. Over 80 percent of 1982 loans totaling about 320 million ECUs, mostly to support 1,400 small- and medium-scale ventures, chiefly in industry.

Under the Treaty of Rome, the bank gives priority to lending for regional development. This rose substantially last year, with the largest part of funds going to regions suffering high unemployment

and, to parts of southern Italy and Greece hit by earthquakes in 1980 and 1981.

The bank is quick to emphasize that its function is not simply to process indiscriminately an endless shopping list of projects sent on by EC states. "Each application is judged purely on its economic and social viability and merits," one bank official said. The EIB employs lawyers, financial analysts and engineers to check each applicant's financial health and management.

The EIB was set up as a non-profit organization, but it has a duty to maintain a solid capital-lending ratio and not to notch up losses, "an official said."

The bank finances projects ranging from the development of anticancer drugs to the construction or upgrading of facilities for water, gas, electricity, sewerage, irrigation, transport and telecommunications.

The EIB emphasizes small- and medium-sized investment through so-called global loans. These loans are made to regional or national financing bodies, which use the funds to support investments on lines agreed upon with the EIB. In 1982, the bank advanced global loans totaling about 320 million ECUs, mostly to support 1,400 small- and medium-scale ventures, chiefly in industry.

The bank also places high priority on financing efforts to reduce EC dependence on imported oil. Energy projects financed last year eventually should help replace the equivalent of 17.3 million metric

tons of imported oil a year, or the equivalent of about one-fourth of West Germany's oil imports in 1982; they should also provide yearly savings of 4.8 billion metric tons, mainly through more efficient use of energy in industry.

The safeguarding and creation of jobs are also high on the EIB list of priorities. The bank provided financing last year that is estimated to have contributed toward new fixed investments of more than 12 billion ECUs.

Ventures backed by the EIB last year should lead to the creation or conservation of more than 58,000 jobs. Projects financed by the bank since 1977, some of which take years to implement, are estimated to have secured employment, directly or indirectly, for more than 410,000 workers in 1982.

Although the bank is a nonprofit organization, its interest rates are dictated by the normal movements of the international capital markets. However, some EIB loans receive a 3-percent interest subsidy financed from the EC budget under a plan to assist less prosperous countries in the European Monetary System. A large proportion of EIB lending in Italy and the bulk of loans in Ireland last year qualified for the 3-percent subsidy.

The bank also makes loans outside the European Community, in particular to Spain and Portugal in conjunction with their plans to join the community. Loans went to 38 countries in all, including Yugoslavia, Egypt, Cyprus and some of the African, Caribbean and Pacific states involved in the Lomé Convention.

### Domestic Banking: Key Role in Expansion

(Continued From Page 85)

mercial banks played a pivotal role in the creation of the whole Euro-bond market in Luxembourg in the 1960s, before many of the leading international banks in this market today had even become established in the Grand Duchy. Although it was the appearance of the German banks that sparked the development of Euro-bond loan operations around 1970, the Luxembourg banks were also closely associated with this particular phase in the financial boom.

Luxembourg did not become a financial powerhouse merely by accident or because international bankers suddenly decided that Luxembourg might be a cozy place from which to direct their Euro operations. The government may not have exactly planned the entire exercise but it certainly did a great deal to encourage the expansion.

Back in 1929, the Luxembourg Bourse was established, the main aim being to create a truly international stock exchange. Legislation designed to encourage the setting up in Luxembourg of holding companies, whose profits are tax-free but whose activities are restricted purely to buying and selling shares in other firms, has also stimulated the rise in financial transactions. In 1970, La Centrale de Livraison de Valeurs Mobilières, known as Cedel, was set up by 71 different banks to act as an international clearing house for Eurobonds. A flexible approach to government

regulation and a completely open border as far as currency movements are concerned have also played their part. In addition, the location of the headquarters of the European Coal and Steel Community in Luxembourg, together with the European Investment Bank and the credit and investments division of the EC Commission, has acted as a further spur to the development of what one U.S. financier described as "a kind of Disneyland for bankers."

In view of the amount of effort that the country appears to have put in to building up its reputation as a solid financial business venue, the local banks might be forgiven for any feelings of resentment against the large foreign banks that have allowed their way in and now dominate international operations. But, according to Mr. Schleider, no such feelings exist. "We would never have been able to do it ourselves," he said. "The development was on both sides. If there had not been particular Luxembourg banks who were prepared to start the whole development, we would never have got all the big banks coming from outside Luxembourg."

Mr. Schleider believes that the boom years are now merging into a period of consolidation. Most of the foreign banks likely to come to Luxembourg have already arrived and it is difficult to see banking operations growing at the same rate as they have in recent years. "It will grow; I'm sure of that," he said. "But more slowly." He might

have added "the Luxembourg way."

"As president of the bankers' association, my approach is to see national and international banks simply at banks here in Luxembourg and to have no difference between the two," he said. "The only real difference has been that all those banks coming into Lux-

embourg have been bigger banks than those already here, but that is only natural. Now, all the banks have been cooperating together with the association on the whole range of banking problems, on both local and international business. We are happy and proud that the development has come about in such a way."

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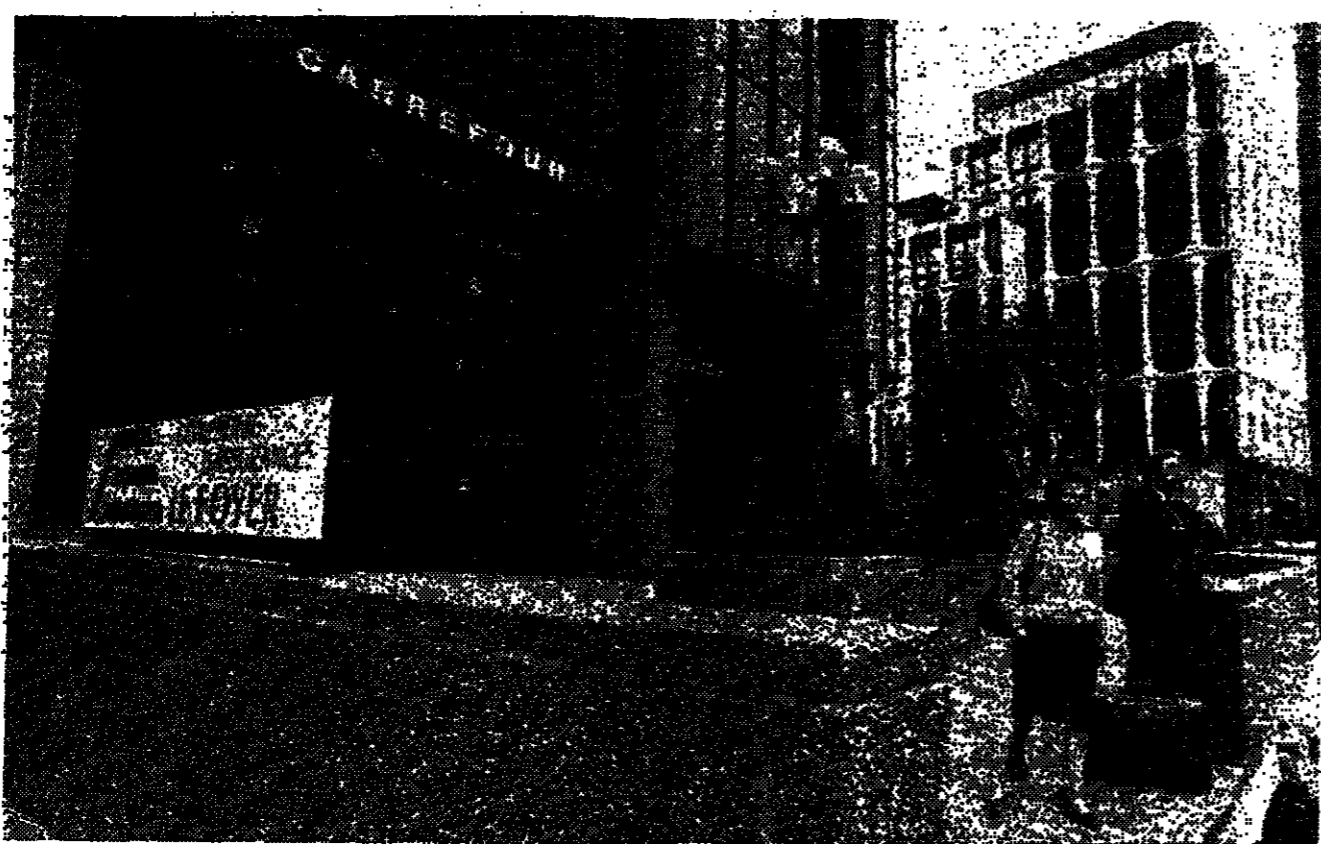
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## BANKING AND FINANCE IN LUXEMBOURG



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### Foreign Investment: Labor Costs, Location, Productivity Are Incentives

**WHY INVEST in Luxembourg?** It seemed a simple question to begin with. As a member of the 10-nation European Community, one might imagine that give or take a slight tax advantage here or a government aid there, Luxembourg might be broadly similar to all the rest of the EC countries.

In terms of run-of-the-mill manufacturing investment, it could be argued that this was the case. At around 48 percent, corporate taxation levels for normal *sociétés anonymes* cannot be said to be very far out of line with those in Belgium, France or West Germany.

Since the mid-1970s, the Luxembourg government has been trying to stimulate flagging foreign investment — as all European governments have been trying to do — and although companies can take advantage of a generous package of subsidies for the purchase of land and machinery, investment grants and loans and tax holidays, as a member of the EC, Luxembourg has to remember that all state aid comes under the eagle eye of the

European Commission in Brussels. Any attempt by the Grand Duchy, or any other EC government for that matter, to steal a march on their Common Market partners by going too far out of their way to encourage new manufacturing industry is likely to be stepped on immediately by the commission's competition officials. Nevertheless, a sizable number of foreign firms have decided to set up manufacturing operations. The U.S. tire firm Goodyear was about the first to come back in 1953 and other foreign investors include E.L. du Pont de Nemours, Electrolux-Krefl and General Motors.

Location has clearly been a major factor in persuading companies to settle here. True to its historic position, straddling the Roman and Germanic civilizations, Luxembourg today sits right in the center of the European Community, the world's largest single market with a consumer population of more than 270 million.

According to Eurostat, the EC's statistical service, hourly labor

costs are around 12 percent higher than in France but markedly lower than in Germany, Belgium and the Netherlands. Productivity per worker, according to Eurostat, is at least 10 percent higher than all four countries. The inflation rate has consistently stayed well below the EC average — higher than Germany and the Netherlands but lower than France, Belgium and Britain. Consumer prices are below average, with the lowest value added tax rates in the Common Market.

There is also the added attraction of Luxembourg's importance as a financial center. Interest rates tend to be 2 or 3 percent lower than in neighboring countries. At present, for example, average interest rates in Belgium are around 15 percent, whereas a loan in Luxembourg will cost you 12 percent. And even that is considered expensive for Luxembourg.

Finally, the country can boast excellent industrial relations — there has not been a major strike since 1921 — and a highly stable political climate. The "small-is-beautiful" argument certainly applies in this respect. As one Luxembourg-born business consultant said: "You are obviously much less likely to have political or industrial problems if most of the trade union bosses and politicians went to the same school together."

But Luxembourg's economic miracle is only partly explained by its relative success in coaxing foreign multinationals to set up operations within its borders. In other respects, the country is plainly not just another EC member state. The question of investing in Luxembourg begs two separate replies. One of the major factors that has led in less than 25 years to the country's development as one of the largest financial centers in the world has been deliberate government legislation to encourage the emergence of that strange of corporate creations, the Luxembourg holding company.

The legislation was passed in 1929, the same year as the Luxembourg stock exchange was created. Today, out of a total of just under 7,000 *sociétés anonymes*, almost 5,500 are registered as holding companies.

A spokesman at the Luxembourg offices of Ernst and Whinney, the international accounting firm, said: "The law here restricts the activities of holding companies to merely taking shareholdings in other firms either within Luxembourg or elsewhere. They are not allowed to become involved in any commercial activities. In return, they pay no taxes at all on revenue or dividends apart from normally 0.2 percent of shareholders' equity."

"Most holding companies are parent companies, the others being subsidiaries in larger groups. But the function is often the same for both types. They may act as a kind of private bank for the other firms in their group, borrowing money on the financial markets here to lend to subsidiaries or sister companies. In this way, groups can maximize profits at the Luxembourg end of the business, where, of course, they are virtually exempt from taxation."

Whether such activities are wholly ethical is open to question, and most experts connected with the financial scene in Luxembourg say that the system does offer scope for abuse and tax evasion in other countries. Some holding companies are used merely to siphon off profits from the rest of the group into tax-free Luxembourg. However, the majority of firms probably use the facility not to build up massive tax-free profits to be used for nefarious purposes or for private gain but in order to take advantage of the opportunity to recycle money within the corporate group as cheaply and as easily as possible to allow greater freedom for subsidiaries to invest elsewhere.

A leading tax adviser said: "One of the chief advantages of Luxembourg is that money goes in and out of the country without restriction. That is very important if you are financing a series of international operations."

In recent years, the Luxembourg

government has felt itself increasingly under pressure from the EC Commission in Brussels, whose initiatives in the field of company law are seen as a potential threat to the very existence of the Grand Duchy as a safe haven for the foreign investor. In 1978, the EC's so-called fourth company law directive laid down a set of standardized accountancy rules to be applied throughout the European Community. Luxembourg's current approach toward corporate disclosure is described euphemistically as "discreet" in international accounting circles. At present, companies registered in Luxembourg are merely required to publish accounts that amount to little more than a couple of lines on each side of the balance sheet. The fourth directive will force companies in Luxembourg to provide a much more comprehensive view of their accounts. Holding companies, however, are largely exempt from the provisions.

Even so, the Luxembourg authorities have so far failed to comply with the 1980 deadline for incorporating the directive within national law and the commission is about to launch infringement proceedings against the country. The recently-approved seventh company law directive will require all parent companies registered in the EC to provide annual accounts giving details of all the activities of firms within their group. Foreign-owned subsidiaries will either have to do the same or provide the annual accounts of their own parent company consolidated on a comparable basis. After a struggle, the Luxembourg government has managed to persuade its EC partners to agree to an exemption for holding companies. The directive is to be applied through national legislation from 1990 and the main change for Luxembourg holding companies will be a requirement to list all their major shareholdings. The government will also have to set up a special authority to ensure holding companies do not transact any other business.

At present, although company accounts in Luxembourg have to be audited, there is no requirement for the auditor to hold either a legal or accountancy qualification. Another EC company law directive, as yet unapproved eighth directive, aims to ensure that all statutory auditors are properly qualified to carry out their function.

The attitude of the Luxembourg authorities to all these moves has left a bad taste in the mouths of many EC officials and diplomats. Officials in the EC Commission's company-law division in Brussels have kept asking the Luxembourg government "where the harm in increasing transparency for holding companies is." But, apparently, they have never got a satisfactory reply. "They seem to think that if we touch one element in this economic edifice, then the whole pack of cards will fall to the ground," one official said.

"Of course, they may be right insofar as the psychological attitude of managers and company decision makers is concerned," he said. "Investment decisions may be affected if the comprehensive picture of legislation, or rather the lack of it, is altered at all."

Analysts in Luxembourg tend to discount the government's arguments on this score. "You have to look at why people come here in the first place, and there are three main reasons — lack of taxation, the presence of a large, healthy banking community and easy money flows," one consultant said. "The government knows exactly how to keep companies here and they are not going to change things in a hurry. Luxembourg is a part of the Common Market and so it has to accept community regulations. But accounting rules are not a significant reason for coming or not coming to Luxembourg. There are clearly some holding companies that would pack up and go but I don't think people are really afraid of what might happen on accounting in the future."

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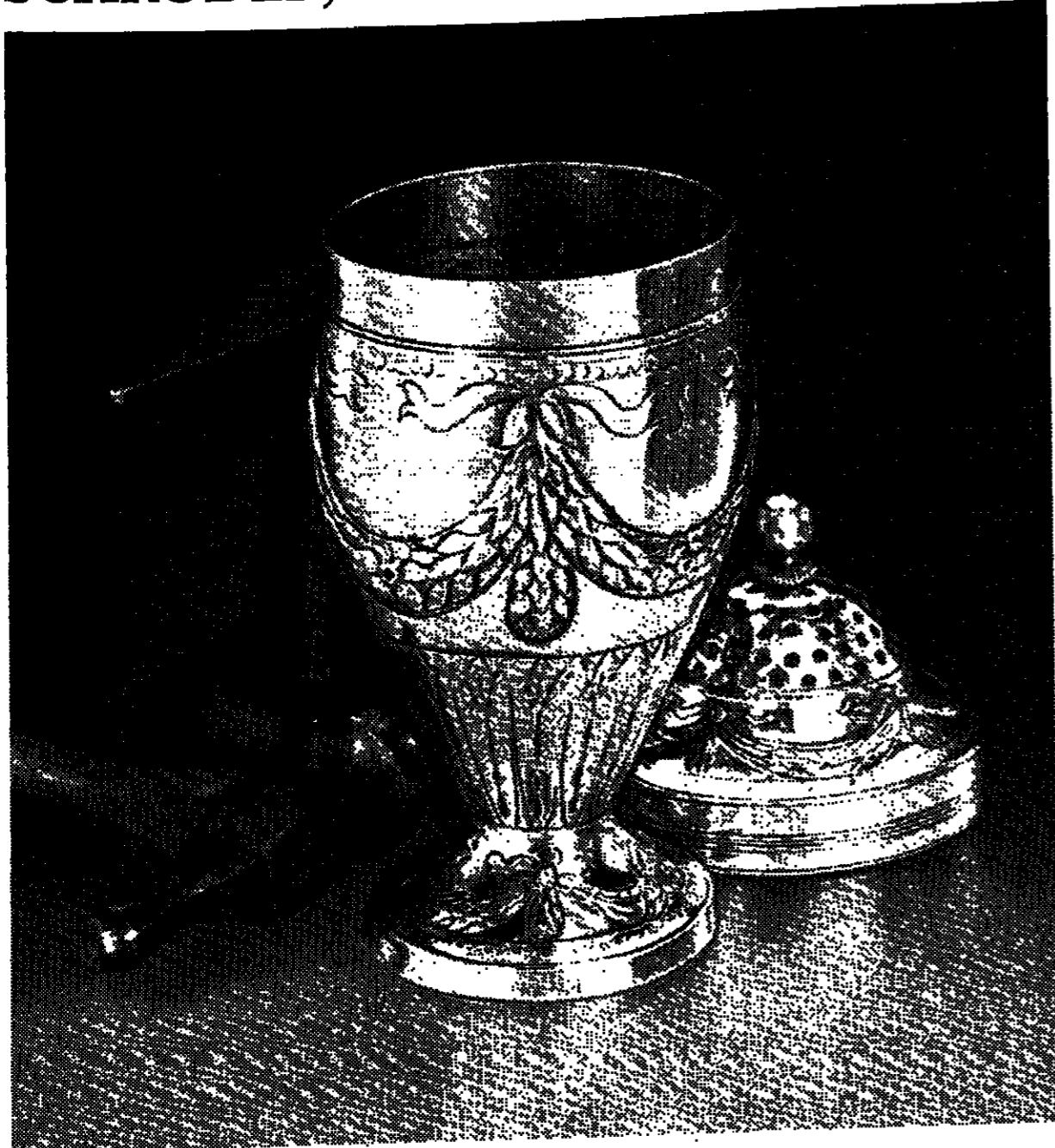
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## BANKING AND FINANCE IN LUXEMBOURG



Spring weather brings out the sidewalk tables in Luxembourg's Place d'Armes.

## Growth of Investment Sector Follows Expansion as a Major Banking Center

SCATTERED around the spacious boulevards and glass banking palaces that form the arteries of Luxembourg's banking heartland, the anonymous-looking brass plates bear mute testimony to the universal attraction of money.

Behind the plates are an estimated 5,500 holding companies, most of which contribute in a smooth and efficient manner to the financial success story of the tiny Grand Duchy.

As Luxembourg developed into a major financial center, primarily because of a burgeoning growth of the banking structure in the last two decades, holding companies and investment funds have sprung up and bloomed in the fertile financial soil.

Expansion in the banking sector, and a slow but steady trend away from strict emphasis on wholesale banking toward more private customer deposit business, has fueled the growth of a diversified area of specialized credit establishments and investment funds.

Liberal legislation on holding companies and successive flexible adaptations and interpretations are chiefly behind this proliferation, although since 1972 the investment funds have been subject to the supervision of the Banking Control Commission.

The supervision has, in part, been responsible for a consolidation of the fund sector.

Whereas the number of investment funds in 1967 was 24, with total assets of 23 billion francs, it had leveled off by the start of this year to 87 and assets of 189 billion francs.

The ground for regulation of banking activities in Luxembourg was laid in 1945 with the creation of the post of banking control commissioner, whose competence was detailed and extended by later texts.

But, while the commissioner's control extends to the supervision of investment fund activities, it does not to those of holding companies.

The present commissioner, Pierre Jaens, said of restrictions on the activities of holding companies: "There is no prudential supervision of holding companies. But they can only operate with the object of holding companies, that is, to hold something, whether it be

participations or, to a certain extent, securities."

The commissioner discourages the prudential supervision of holding companies with the argument that company legislation permits the fiscal authorities to inspect the books and accounts to see if legal limitations are being respected.

"I see no reason to protect professionals from dealing with other professionals and where no direct involvement of public funds or the public is at stake," Mr. Jaens said.

He said that those holding companies, which are run in Luxembourg, have participations worldwide and it would not be reasonable to pretend one would be able satisfactorily to supervise them prudentially.

One of Luxembourg's principal attractions is undoubtedly its favorable tax legislation concerning holding companies. For many years, this legislation has attracted important foreign groups that formed holding companies in the Grand Duchy.

In order to adjust itself to the developments in the international financial markets, the legislation of 1929 has found numerous practical applications, particularly with respect to open-end investment companies.

Luxembourg holding companies are exempt from any direct taxes, though a capital contribution tax of 1 percent is levied upon incorporation and any capital increases the company may pursue. Moreover, holding companies are subject to a special annual tax of 0.2 percent, payable in quarterly installments and assessed on the overall amount of the registered capital and the bonds and debentures issued by the company.

Dissolution of the holding company does not give rise to any tax on the proceeds or profits of liquidation.

As a rule, holding companies take the status of sociétés anonymes, formed by deed prepared by a notary or lawyer.

Its capital must not be less than 1 million francs and it is not permitted to engage in trade or industry on its own account.

The law of July 31, 1929, defines a holding company in these terms: "The expression 'holding company' means any Luxembourg company the sole object of which is the acquisition in any shape or form of

an interest in other Luxembourg or foreign undertakings and the management and exploitation of such interest without engaging industry on its own account or having business premises open to the public."

Holding companies operating in the Grand Duchy are permitted to hold portfolios, including variable-income participations, such as capital shares, fixed-income participations, such as bonds and debentures from the public or private sector and issued by Luxembourg or foreign companies, real estate company shares and guarantees for obligations of subsidiaries and affiliated companies.

With such a wide spectrum of financial activities on tap to the average holding company, officials are ready to admit that Luxembourg, like any other major financial center, can attract the shady outsider.

"It is quite clear that in such a large population of individuals you have a majority that behaves in a decent way and you have the black sheep also," Mr. Jaens said.

One of the most recent and notorious "black sheep," the commissioner said, was Banco Ambrosiano Holding S.A., the Luxembourg-based holding company of the failed Italian Ambrosiano banking empire.

Following the collapse of Banco Ambrosiano and the Italian authorities' unwillingness to cover the

obligations of the Luxembourg and Nassau operations, the Luxembourg holding company has been placed under a special judiciary regime while investigations into its operations, which are likely to go on for some time, continue, Mr. Jaens said.

In order to iron out some of the irregularities that may arise in the operations of some of these holding companies, which number among them, as well as "black sheep," shells, or as Mr. Jaens describes them, "corpses," Luxembourg company legislation includes some restrictions.

If a holding company does not publish its accounts on a regular basis or fails to comply with other formalities laid out by the Luxembourg authorities, it can be liquidated, or, as Mr. Jaens puts it, "placed before the firing squad."

In the last three years, between 100 and 150 holding companies have been suspended by the authorities. Officials are at pains to stress that the vast majority of holding companies go about their business in an orderly fashion but that their operations are never heard about, while it is the shady and false fronts that occasionally fall under public scrutiny.

"I think Luxembourg should be viewed a bit differently—not as a brass-plate place but as a market place with solid financial attractions of its own," Mr. Jaens said.

—MICHAEL METCALFE



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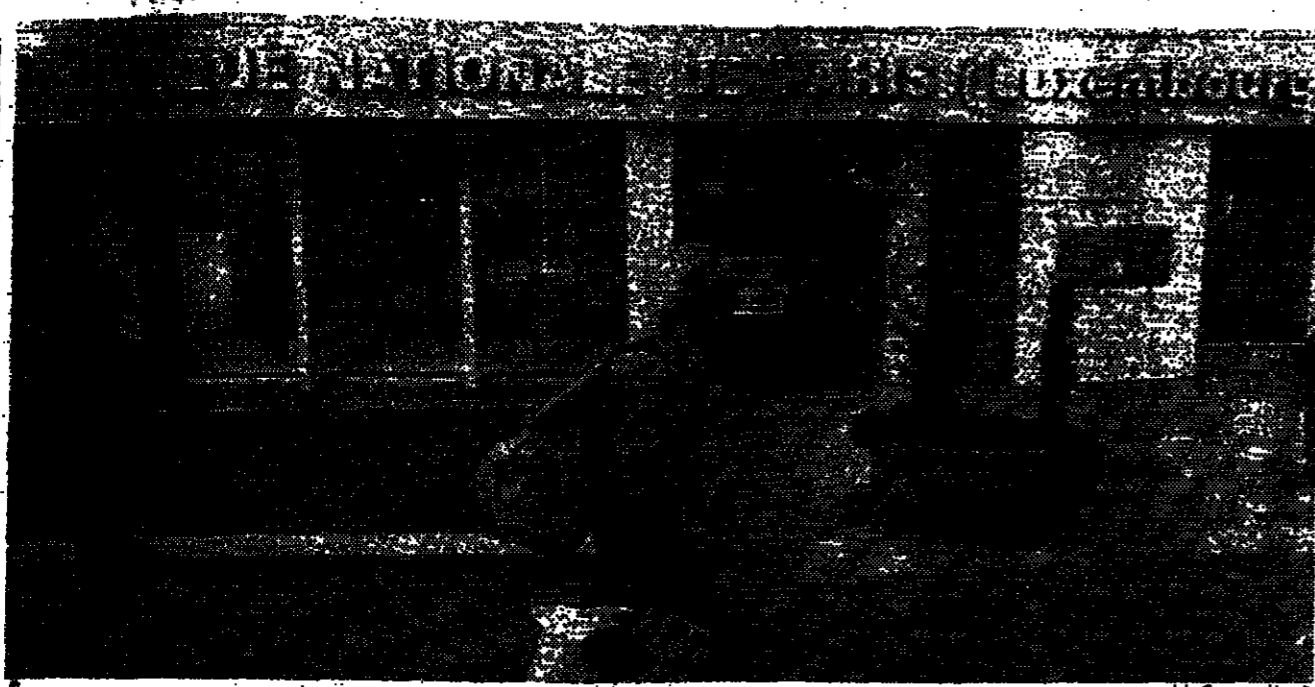
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## BANKING AND FINANCE IN LUXEMBOURG



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### Offshore Banking Profits Are Rising

LUXEMBOURG may have very steep taxes, but it is nonetheless proving to be a nice offshore place for international banks to be, to judge by operating profits — from aggregate earnings of 22 billion francs in 1980, to 37 billion in 1981 and to 56 billion last year.

Provisions and taxes reduced those gains to some extent. But in the unregulated environment of Luxembourg, provisions are left to banks to decide and even taxes are something they choose to pay. Luxembourg is like an island haven in this respect, with dependence on international banks.

With 8,621 employees (5,833 of whom are citizens), banks account for 5.4 percent of all jobs in the country. They produce between a fifth and a quarter of gross national product. Banks paid 10 billion francs in taxes in 1981, or 38 percent of all direct taxes, 60 percent of all corporate taxes — and 19 percent of the total budget of the country.

If taxes are easing up, it may be to keep the banks where they are. Luxembourg can make its weight felt in the EC and internationally because of its banking presence. The payoff for a Eurocenter is not only jobs and taxes.

The 115 banks of Luxembourg (13 of which are from Belgium or Luxembourg) had a collective balance sheet at the end of January 1983 of a little more than 6 trillion francs, 5.3 trillion francs of which was in foreign currency. In 1970, there were only 37 banks with a collective balance sheet of 236 billion francs. But while the growth of volume and numbers of banks was rapid in the 1970s, it has slowed in absolute terms and Euromarket share.

London has benefited from Luxembourg's failure to keep pace. According to the Bank for International Settlements, in 1982 the Luxembourg share of assets and liabilities on the European Euromarket was between 10 and 10.3 percent. It retained its third-place position, after London and Paris, but its share of the total market was lower than it had been since 1975. Britain, with just under 52 percent of all European Eurobusiness, was

picking up the slack from Luxembourg and also from the decline of Paris as a Eurocenter.

Even apart from the shift to London, Luxembourg is threatened by the shift of banking business to the newly legalized American offshore centers. International Banking Facilities, of which 269 banks have taken advantage.

Many Luxembourg bankers and their regulators were cheered by the remarks of Jean de Roquembourg, formerly general manager of Crédit Commercial de France, who in June will become chairman of the newly formed International Bankers Inc., founded by Arab interests and incorporated in Curaçao.

Mr. Roquembourg explained why IBI would not set up in London. "Ratios make it hard to earn money there, in contrast to Luxembourg," he said. (Luxembourg requires that bank capital be equal only to at least 3 percent of lending volume.)

Luxembourg fans also cheer other new arrivals like Merrill Lynch and American Express, who are using Luxembourg for investment banking operations. American Express came in via the back door and did not add to the number of institutions in Luxembourg, since it bought the bank holding company of the Trade Development Bank group of Edmond Saffra.

Luxembourg still remains the center of choice for some international bankers, like the Bank of China, the Bank Handlowy, the Scandinavians, the Israelis and the Brazilians. Leasing companies and a growing number of investment funds have found that the city's combination of holding-company law and financial possibilities make it a natural. Among the 92 funds, are several American stock and money market funds and the only mutual fund to invest in art, Artemis.

But departures can be worrying. In the last 12 months several banks have announced that they were closing down their Luxembourg operations. These included the small German state-owned Landesbank Stuttgart, American Fletcher International Resources (Bank of



Ernest Muhlen

Montreal), European-American Bank (a consortium that is closing in June) and — from a minority holding — another Canadian and the country's only Austrian bank, Oesterreichische Laenderbank. Home office strategic reasons explain most of the departures, but in the case of the Stuttgart bank, losses on lending to the Ambrosiano group was a reinforcing reason.

To help build up Luxembourg's appeal as a financial center, the authorities are fostering diversification. As in West Germany — but unlike the practice in Belgium, Britain or the United States — Luxembourg banks are "universal" banks, which can engage in credit business but also underwriting, investment advice and management, floating bonds and shares, portfolio management. The American banking contingent of 10 banks includes six that have created Luxembourg subsidiaries rather than branches precisely in order to be able to diversify. And the local government is helping, above all by easing taxation.

The bite on banks has been reduced by suspending — and ultimately, forgiving — the taxes banks would otherwise owe on gains due to changing exchange rates in foreign currency denominated capital and reserves, while

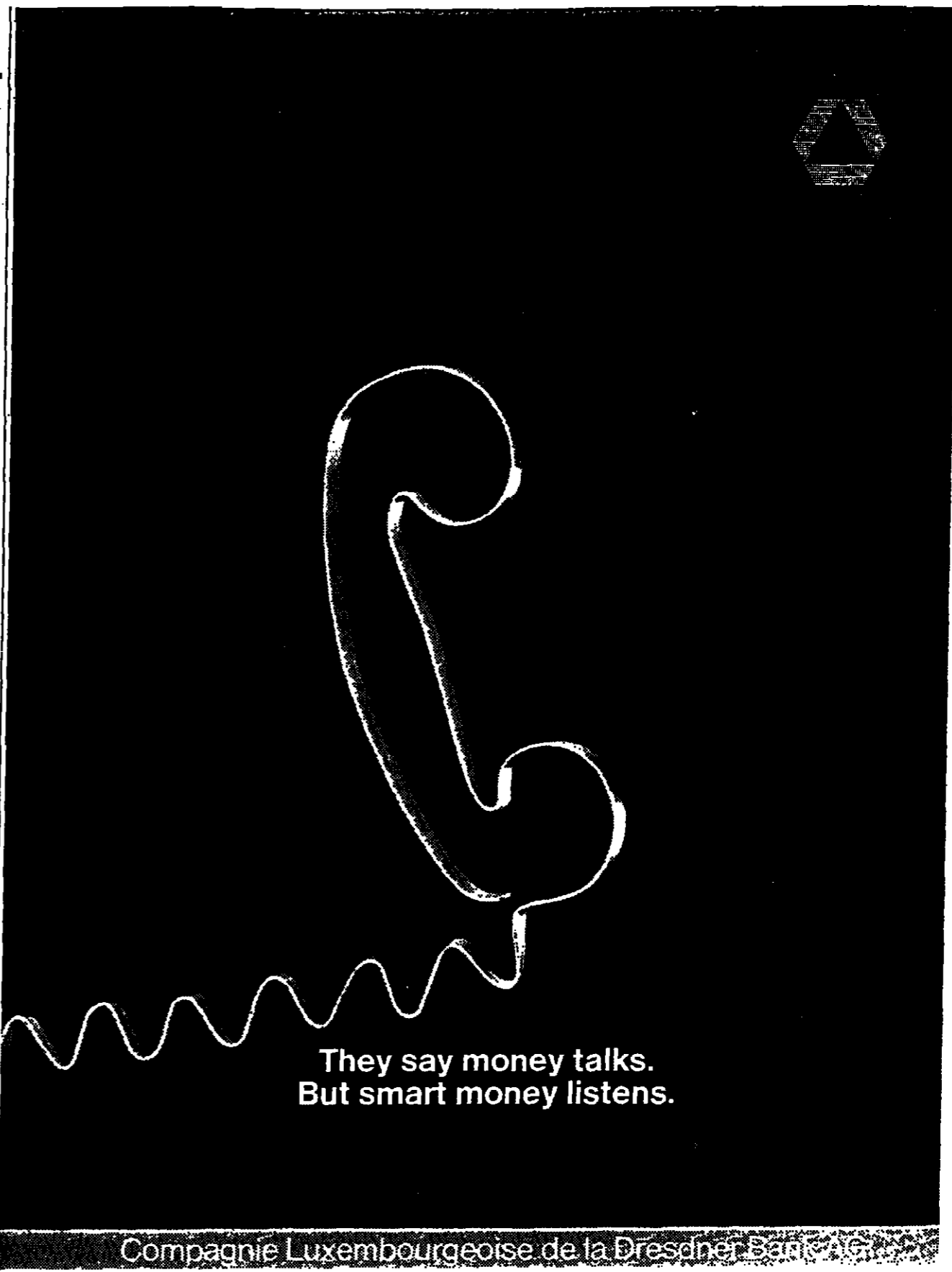
the British are suing to tax them. While even in Switzerland there is talk of taxing non-resident accounts in foreign currencies (in Swiss francs there already is a substantial withholding), Luxembourg would not think of doing the same.

Trading in gold is free of turnover and sales taxes, which apply almost everywhere else in the industrial world, and it is now being proposed that silver trade be similarly favored. Double taxation treaties are being negotiated — the most recent one with Singapore — to develop the international no-tax network. Where withholding taxes apply at source to Luxembourg-domiciled institutions, under certain conditions they can be offset against local taxes.

By these measures the government is helping the banks diversify into gold trading and certificates of deposit and, above all, "personal banking," client services for high net worth tax-shy individuals. Ernest Muhlen, who is minister delegate for treasury operations, head of the insurance study group and minister of agriculture as well, said: "The political authorities are fully conscious of the fact that the tax system is not so attractive to the banks as it could be in comparison with other centers." These views, starting enough from a minister in any country, were expressed in March before the British Chamber of Commerce.

Although Luxembourg banks, like Mr. Muhlen, are almost proud that, as he says, "Luxembourg is not a tax haven," they take a relatively relaxed view of the games bankers play for avoiding taxation and for internal and accounting reasons. Where some credits are booked (which is at the option of the bank), what loan loss reserves are taken — and where — determine the profitability of banks, and how much Luxembourg collects in taxes. The volume of net profits and taxes depends on the good will of banks and a subtle negotiating process no one talks very much about. By modifying their demands, the Luxembourg tax authorities ensure that foreign banks stay in the Grand Duchy.

— VIVIAN LEWIS



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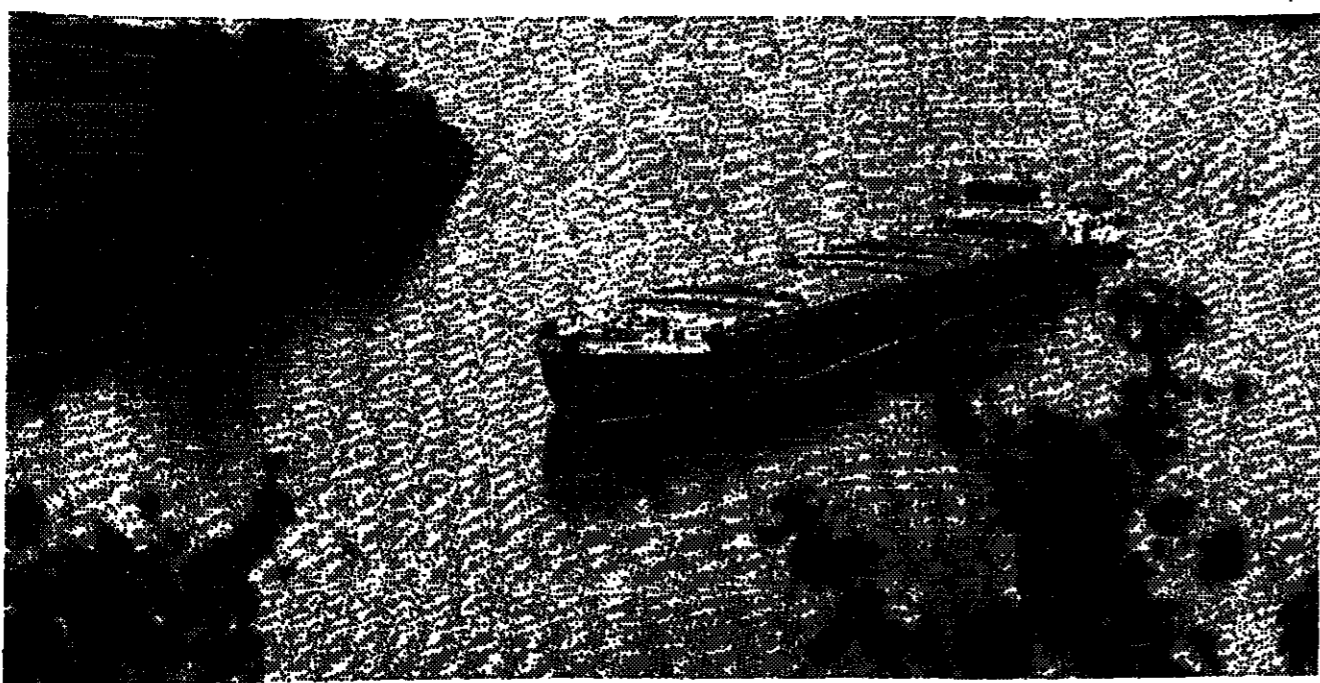
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## BANKING AND FINANCE IN LUXEMBOURG



Outside the capital: Left, the Moselle River, the boundary with West Germany; right, the picturesque town of Esch.

## Loan Currencies: Deutsche Mark Assets, Liabilities Far Outweigh Dollar's

**TWO CURRENCIES** dominate Luxembourg's interbank market — the dollar and the Deutsche mark. The latest figures from the Banking Commission show the two currencies accounting for exactly equal amounts of the center's banking assets, 41.5 percent each. But it is a different tale on the other side of the balance sheet. Here dollar liabilities far outweigh Deutsche marks. At the end of the third quarter of 1982, the dollar accounted for more than 53 percent of the center's total liabilities, while the mark liabilities amounted to a little more than 30 percent of the total.

But when the figures for Luxembourg are compared to the rest of the Euromarket, the Grand Duchy emerges as a notable Euromarket center but a negligible dollar center. Luxembourg's banks have more than 30 percent of the Euromarket's mark assets and nearly a quarter of its mark liabilities. That compares with a figure for dollars of a little more than 5.5 percent

of the Euromarket assets and 6 percent of its liabilities.

West German banks, as befits their role as the largest national grouping in Luxembourg, dominate the interbank market. They account for more than 50 percent of the business done on the interbank market. A lot of the business is arbitrage between dollar and mark.

Luxembourg's interbank market differs little from London's. The average size of trades in Luxembourg is much the same as in London or any other financial center, but the volume is considerably less. Luxembourg has only a quarter the number of banks London has and it has a very small Japanese presence. In London, the Japanese banks account for nearly a third of the trades that take place.

The main suppliers of funds to the interbank market are the Swiss banks. The main takers have traditionally been the Scandinavian banks and this is still the case. They came to Luxembourg to raise funds for loans to support their

domestic customers and this is still their main activity. "We were attracted by the absence of reserve requirements in Luxembourg," a senior Swedish banker said. "Our business is almost entirely Swedish related — either for Swedish borrowers or for Swedish exports. We fund it entirely on the Luxembourg interbank market."

Such is the Swedish presence in Luxembourg that the Grand Duchy has become the leading krona/dollar center in the world. Several banks now specialize in the forward dollar/krona market that has developed over the last three or four years.

Forward markets are a Luxembourg peculiarity. Very little business is done in the spot markets. Luxembourg is predominantly a deposit and forward center. Banks tend to do their spot business in the world's biggest foreign exchange centers — London and New York. The forward markets are where banks make their money — they take a position on a currency and if they

are right they unwind the position at a profit. The downside risk is limited because of the liquidity of the market.

Besides the Swiss banks, who recycle the money deposited with them in Switzerland through Luxembourg, the main providers in the Grand Duchy are the French and indigenous banks. The French are less important providers than they used to be. Banque de Paris et des Pays Bas in Luxembourg is known to have suffered a drain of deposits after the election of President François Mitterrand and the nationalization of those banks that were not already nationalized. Paribas recovered by buying a large stake in nearby Banque Continentale du Luxembourg, staffing it with native Luxembourgish bankers who redirect clients there. "It seems to have worked," one West German banker said.

The local banks have always been important providers of funds in Luxembourg. The largest of the local banks, Kredietbank, Luxembourg-

geise, has more than half its liabilities in the form of customer deposits. Although Luxembourg is part of the Belgian-Luxembourg Economic Union and shares the same currency — but not the same coins — Luxembourg is a different country, as was graphically illustrated last year when the Belgian franc came under pressure and was devalued by 8.5 percent. The authorities were furious and threatened to leave the union. They also stopped non-Luxembourgish holders of Luxembourg-franc assets, which led to a growth in demand for assets denominated in European Currency Units.

There is now a small but significant market in European Currency Units in Luxembourg. "It's just a drop in the barrel," one experienced trader said. "There is a small handful of market makers. A few corporate treasurers use the European Currency Unit to hedge, and the European Commission is a big player." The average size of an ECU trade is between 1 million and 3 million.

Luxembourg bankers are worried by the lack of diversity in their sources of funding. "We are too dependent on the Swiss," a senior banker said. Luxembourg bankers are concerned that there is little U.S. involvement in their market. U.S. banks are pulling out of Luxembourg rather quickly.

There are also no U.S. regional banks in Luxembourg. To a very large extent they are the most important suppliers of liquidity to the London interbank markets.

Arab money, too, has virtually passed Luxembourg by.

Although Bank for Credit and Commerce International has its headquarters in Luxembourg, it is not a major player on the interbank market. More importantly, Luxembourg handled very little of the Organization of Petroleum Exporting Countries' surplus at first hand; the Jig banks in London, New York and Frankfurt handled that.

## Settlement Preserves Belgian Monetary Link

THE DUST is settling in a dispute between Luxembourg and Belgium over the 62-year-old monetary marriage of convenience between the two neighbors, a marriage that at times last year seemed headed for divorce.

Luxembourg's demands for far-reaching amendments in the association have been partially met by Brussels. This has stilled rumblings in the Luxembourg government, though many citizens of the Grand Duchy are still far from pleased.

The anger expressed by Luxembourg last year when the Belgians unilaterally devalued their franc —

forcing an identical 8.5-percent adjustment downward of the Luxembourg currency — has changed to a sense of reserved satisfaction. The change in sentiment was best felt in March this year, when a realignment of the European Monetary System brought about an upward adjustment by 1.5 percent of the two countries' currencies.

"We have gained our broad objectives and we are on the whole satisfied with the existing arrangement," said Finance Minister Jacques Santer. But he cautioned that Luxembourg was "prepared to meet any eventuality."

The association dates to July 25, 1921, with the establishment of the Belgo-Luxembourg Economic Union, or BLEU; the terms of the charter were amended in 1963 and again in 1981. Under BLEU, Luxembourg has a separate currency, but the Belgian franc is also legal tender in the Grand Duchy.

As part of the monetary union, Belgium and Luxembourg laid down common exchange regulations, which are applied by the Institut Belgo-Luxembourgeois du Change, or IBLC.

The regulations are based on the principle that foreign transactions

are freely allowed but that they must be carried out either on the official market, where fluctuations in the exchange rate are controlled by the Belgian National Bank, or on the open market, where the rate is freely determined on the basis of supply and demand. "It's a system which, while complex because of its dual nature, on the whole works to the general satisfaction of both parties," commented one central bank official.

The advantages of the dual system become clear when the exchange market is unsettled, as was the case before the March 21 realignment, when speculative

pressure on the weak French franc forced Common Market governments to act.

Where the system breaks down, explained a financial analyst, is in the large divergences in the Belgian and Luxembourg economies. The Belgian economy suffers from higher inflation, proportionately wider budget and trade deficits, and much larger-scale unemployment.

This was the case in February last year, when, as one senior Luxembourg official described it, "The Belgians passed the buck of their economic troubles onto us."

The 8.5-percent readjustment at that time caught the Luxembourgians unaware. As Mr. Santer said, "We were informed like all the others, by phone, which is difficult to swallow when you have had a long partnership." The Grand Duchy's government, incensed by the Belgian move, pushed for three major amendments to the BLEU monetary protocol.

The government demanded that it be consulted well in advance of any planned parity change; that the gold and foreign exchange reserves of each country be valued separately; and that exchange rate guarantees be given for Luxembourg assets held in Belgian francs.

On the first point, Mr. Santer said that the Luxembourg government had gained its objective. "In the matter of prior consultations, we are well satisfied; we now have regular consultations," he said.

Negotiations on the second and third points — which are related, since separate identification of currency reserves would help Luxembourg pressure the Belgians into giving compensation in the event of a break in the parity link — are continuing with some difficulty, Mr. Santer said.

A major obstacle is that Luxembourg does not have a central bank of its own, but uses the Banque Nationale de Belgique as its central bank. Because foreign reserves in the bank's vaults are the sole property of the bank, and assessing the contributions of each country would be an accounting nightmare, Luxembourg's case is weakened.

The establishment this year of the Institut Monétaire Luxembourg, which is designed to have many characteristics of a central bank, may make Luxembourg's task a little easier and provide it with more weight in European Community discussions on its monetary system.

But on the whole, the Belgo-Luxembourg exchange regulations, including the dual exchange-rate market, are flexible enough to allow speculation and monetary disturbances to be dealt with effectively, without interfering with freedom of trade between the two neighbors.

And should this fail, which now seems unlikely, the Grand Duchy could resort to its ultimate weapon — pulling its franc out of the association and breaking the parity link. While not threatening to do this, Mr. Santer noted that a precedent existed, when in the mid-1930s the two currencies severed their parity bond.

No such breakup seems likely now. While pushing for greater freedom of action in the association, Luxembourg is eager to pursue a policy of stability in its monetary dealings. If this can be realized, and its interests taken into account, then Luxembourgish will make do with their sometimes rocky marriage.

—MICHAEL METCALFE



The Kredietbank on the Blvd. Royal.

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NEW ISSUE

May 31, 1983



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## BANKING AND FINANCE IN LUXEMBOURG

# International Clearing System, Interbank Market Support Bonds Business

IN THE world of Euromarkets you have two elements trying to meet: funds looking for a home and a rate of return — preferably free of excessive tax burdens — and "vagrants" in investment opportunities.

Both can come together in a dozen places in the world today under conditions more attractive to borrower or lender than in Luxembourg. The fact that certain business has been booked there in the past or is being booked there now "is no guarantee for any single banking center," said Ekkehard Storck, head of the Deutsche Bank subsidiary in Luxembourg.

Luxembourg, the place where the proverbial bond holder, the Belgian dentist, is closest to home, remains the venue of choice for some operations, notably Eurobond issues. Of all Eurobonds issued last year, Luxembourg banks participated in 16.3 percent by volume, a drop from 21.8 percent the previous year and even higher levels a decade ago. The reason is that more bonds are being denominated in dollars — the currency in which Luxembourg is relatively

weaker — than in West German marks, French francs or the handful of European and international composite currencies like ECUs (European Currency Units), SDRs (Special Drawing Rights), ECU (European Units of Account) and ECUOs (European Currency Options).

But in the secondary market, Luxembourg remains well positioned, with its Bourse quoting no fewer than 48 percent of all bonds traded, up from 45.4 percent a year before. In certain of the special currencies the Luxembourg Bourse is the only quotation place. Luxembourg bonds tend to be issued for European companies and countries — no mean thing in the present climate of uncertainty about Latin America.

Backing up Luxembourg's capacity to buy and sell Eurobonds is one of the two international clearing systems, Cedil, with headquarters in the Grand Duchy, which is run by a group of banks and is something of a cooperative, in contrast to the other system, which is managed by Morgan Guaranty out of Brussels. With bond clearing and quotation operations

often centered on Luxembourg, it has picked up other bond business as well: warehousing, paying agent and destruction center. The result is a fee business for banks.

Another support — both for the bond trade and for Euroclearing out of Luxembourg — is the flourishing interbank market, particularly in marks. "Our volume per day can be three times our capital," said Jürgen Förster, newly appointed manager and member of the board of the Luxembourg subsidiary of a private bank, a small partnership bank from Germany, M.M. Warburg-Brinckmann, Wirtz.

"Where else with one phone call to a partner can I take or give 60 million marks?" For all the talk about the rise of private banking, most Luxembourg syndicated credits and loans are still funded from the interbank market, 85 percent at the close of the third quarter of 1982.

It is symptomatic of Luxembourg's importance as a bond trading center that the present head of the bond dealer's association is Damien

Wigny, head of international operations at Kreditbank Luxembourg.

Yet, it is no accident that the currency Mr. Förster mentioned to indicate the size of deals he could do in Luxembourg was marks. It was the West German banks — impelled by restrictions at home — who first made Luxembourg an international banking center. And Luxembourg's competitive position — and indeed its survival as a Eurocenter — depend on the West German banks wanting and needing Luxembourg.

But having been first to discover the advantages of Luxembourg, the West German banks have been joined by substantial contingents from other European countries doing their own special kinds of business in Luxembourg. Others tend to agree with Wolfgang Spehr, head of West LB International, the Luxembourg offshoot of Westdeutsche Landesbank, that "the Luxembourg advantages remain; it is cheaper than London."

controls makes it disadvantageous for their powerful multinational corporations to repatriate profits or borrow at home for overseas investments, the Swedish banks started to set up in Luxembourg 10 years ago. Today, there are 14 Nordic banks in Luxembourg, making them the largest contingent after the Germans. Backing up their interbank business, they have gone in for leasing and factoring operations and have set up a network of non-bank financial subsidiaries to do them.

An even more startling contingent is the eight-bank Swiss presence. Among the newest banks in Luxembourg are the Swiss, operating fiduciary accounts. These are funds that, under the Swiss banking system, may be transferred on behalf of clients from Swiss banks to their Luxembourg subsidiaries and placed at interbank rates (after the Swiss bank has deducted charges.) The difficulty is that the funds are placed in the name of the Swiss bank while the client bears the risk. But he also avoids the high withholding tax the Swiss impose. Then, too, a Swiss bank can buy gold for a client in Luxem-

bourg without transfer taxes (which would have to be paid in Switzerland). And the two-year-old Luxembourg bank secrecy law, as any banker who is not Swiss himself would attest, is generally accepted as being even stricter in protecting client secrecy than the Swiss.

This brings up another Luxembourg selling point: tax evasion. It is as a typical Luxembourg banker, and not as a director of the French state-owned Banque Paribas (Luxembourg), that Jacques F. Poot tells potential clients: "It is up to you how you bring the money here. It is up to you to declare what is required to the tax authorities responsible."

The French banks in Luxembourg, under their own names or otherwise (Banque Continentale, Banque de Luxembourg) are in the same business as the others, and the nearby border with France must bring them some illicit business. And West Germans find that Luxembourg is a good way to escape that country's annual wealth tax and its inheritance taxes too. — VIVIAN LEWIS

## Growth of Insurance Business Would Help Diversify Market

LUXEMBOURG is already home for two Swedish insurance giants — Electrolux, the appliance firm, and ASEA, the heavy electrical equipment maker — and the Grand Duchy's authorities plan to attract others from other European countries.

Authorities are hoping that insurance companies, controlled by multinational corporations to cut their taxes and gain access to the wholesale end of insurance, will help diversify the Luxembourg financial market, and for four years they have been working to create the preconditions for investment.

The Swedish arrivals are an indication that the concept makes sense, and talks are going on with another half-dozen or so companies from other countries. But Luxembourg, with a relatively high corporate tax rate, is not the obvious place for insurance, compared, say, to Bermuda, where there are more than 8,000 companies.

In Europe, according to Luxembourg's insurance supervisor, Victor Rod, the major competition comes from the Channel Islands and the Isle of Man, which are "close to the London market with tax advantages." Furthermore, Luxembourg still is short of the specialized staff the business will need.

To increase attraction, the government is not offering a general

ized cut in the corporate tax rate to the levels of "exotic" island insurance centers, "but we will give companies the opportunity to create technical provisions to avoid too much profits," according to Mr. Rod. The cutting is only incidental anyway, as the real saving comes in the headquarters country. There, a company will set up a captive in order to insure its own risks while deducting from taxes the premium reserves. If a company pays the premiums to itself, it cannot deduct them from taxes as a cost of doing business. Then, too, when a corporation does not want to cover all its risks, it requires a primary insurer or a captive to gain access to the wholesale market in reinsurance. In the U.S. offshore markets, U.S. court rulings required that captives do a certain amount of non-related insurance business to permit their parents to deduct premiums. As a result, many bought business that other insurers did not want. In Luxembourg, however, according to Mr. Rod, "we don't want captives taking up risks that don't belong to their own parent."

The good name of the Duchy is important to the insurance regulators, who worry about the solvency and solidity of the insurance newcomers. "We are not interested in 'cowboys' without a sound foundation," Mr. Rod said. Already, the

Duchy has attracted one major insurer, Corelix, a subsidiary of La Licoine, the French insurance group. Citibank, which is regularly reformed in its attempts to buy a U.S. insurer, is having talks with the insurance commissioner, American Express, which controls the American Express Fund in the United States, is also reported to be interested. In addition, marine, aviation and transport risk "clubs" from two British mutual insurance groups are based in Luxembourg — and pay a total in premiums of 10 billion francs, more than all 43 domestic insurance companies combined, according to Ernest Mühlen, the treasury minister-delegate and head of the government's insurance study group.

To ease the way for insurance expansion, Luxembourg is counting on the proposed EC directive on freedom of services, which would allow Luxembourg-based companies to sell insurance all over the Community. Then, too, the profession of insurance broker — prohibited under present Luxembourg law — will be legalized for those dealing in international insurance policies. "It is difficult to imagine an international financial center like Luxembourg without professional intermediaries," said Mr. Mühlen, who has introduced a draft bill to change the law. — VIVIAN LEWIS



Headquarters of the Luxembourg State Bank.

## After the Ambrosiano Case: Need for More Regulations?

(Continued From Page 75) the Deutsche Bank subsidiary, did not agree.

"The understanding was that the parent company would back it," he said. "A number of banks lent to the largest private bank in Italy and the subsidiary was felt to be as good as the parent. Many things are still unclear. Despite the strict banking control, the climate has suffered in Luxembourg."

But most bankers feel that if regulatory confusion remains and while Italian authorities failed to provide adequate backing to Ambrosiano, the Luxembourg authorities acted with speed and a good understanding of the situation.

But that is far from the course in Luxembourg, where the government is quick to do what it can for banks.

In recent years this has taken the form of tax breaks — not taxing the capital gains banks earn from

the fall in the national currency for example — and special laws, like the secrecy rules.

"Where else but in Luxembourg can I call up the prime minister and meet him the day after tomorrow?" said Bengt Senneby, managing director of Skandinaviska Enskilda (Luxembourg).

The authorities have also eased the way for Luxembourg to develop its tax-free gold trade. "Why do you think Pierre Werner [the prime minister] goes to every bank's cocktail party?" one banker asked at the Chase's celebration of its 10th anniversary.

"He has no choice." Another major area of potential international confusion concerns Luxembourg's growing role as a haven to foreign funds, particularly from France.

There are rumors in Luxembourg of mail being opened by the French customs authorities and

"frontier workers" (who cross the border to work in Luxembourg banks) being blackmailed to provide client lists.

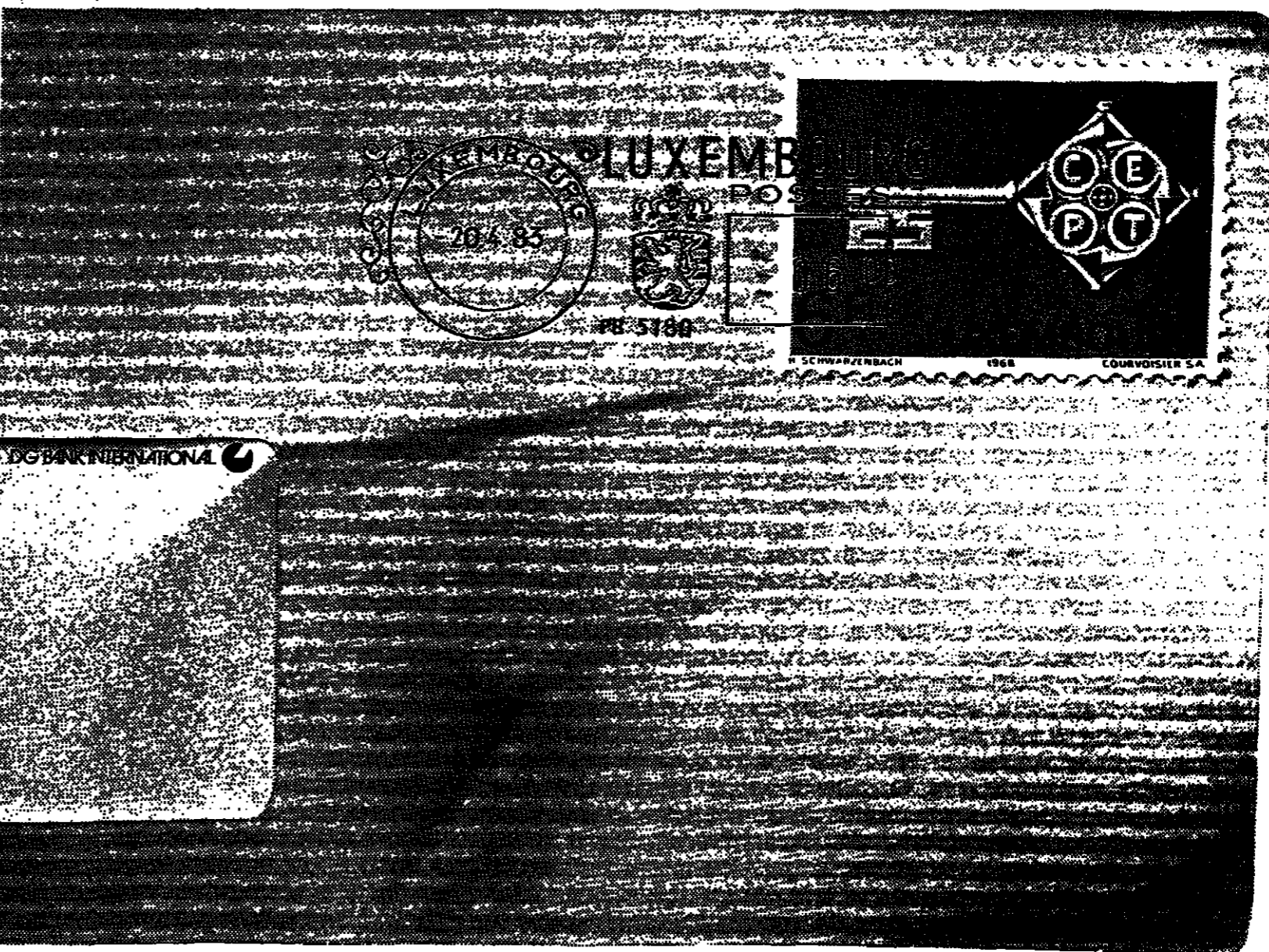
"There have been instances in which we wondered whether procedures were strictly kosher," Mr. Jaans said.

And, he added, "arrests would depend on the degree of provocation, if persons were performing activities not in accordance with international agreements."

While concerned not to play up the potential for conflict, he certainly made it clear that Luxembourg would react as strongly as Switzerland did three years ago in arresting two French customs men who were trying to buy a list of bank customers.

"It is not the role of this country to take care of implementing the legislation of neighboring countries," Mr. Jaans said. — VIVIAN LEWIS

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## Rhein-Saar-Lux-LB Balance Sheet '82:

	1982	1981
	In Million DM	
Balance Sheet Total	3,943	3,795
Due from Banks	1,255	1,332
Due from Customers	2,482	2,062
Volume of Credit	3,184	2,831
Securities	118	118
Capital Funds	117	115*

\*Rate of Exchange as of 31.12.82



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## BANKING AND FINANCE IN LUXEMBOURG

## Low Profitability Cutting Down U.S. Presence

AT CHASE Manhattan's 10th anniversary cocktail party in Luxembourg, Prime Minister Pierre Werner caused a few eyebrows to be raised when he thanked the Chase men "for not having defected." This was not a reference to the recent departure of two U.S. banks from Luxembourg — American Fletcher and European American Bank — but to the decision by the New York bank to stay on in Luxembourg four years ago, after serious study had been given to closing shop.

Like others of the surviving 10 U.S. banks (soon to be reduced to nine, from a 1973 peak of 16), Chase found after its arrival with fanfare that profits were not that easy to come by. Even after deciding to remain business has not been exactly sparkling and, despite a billion-franc increase in balance sheet totals last year, profits were actually down slightly.

## 10 American Banks Survive From '73 Peak of 16; Private Services Bring More Than 50% of Income

Having rushed to establish in Luxembourg, U.S. banks were in trouble with headquarters when the profits did not come rolling in. "They had to scratch their heads and think about what to do," Banking Commissioner Pierre Jaans said. Most banks found themselves a little niche in the banking edifice — or left. Chase, for example, found itself two niches — private banking and commission business for the bond market — both of which it shares with one or another of the U.S. banks in Luxembourg. For Chase, as for Bank of America and Bank of Boston, private banking accounts for more than half of operating income.

\*Private banking is retail bank-

ing with a few flowers," said Bank of America's managing director, Patrick I. Cunningham. At most of the leading practitioner banks, a client with \$20,000 or \$25,000 minimum to deposit will get a certain amount of personal service — including discretionary fund management, should he wish it. "This is the future of Luxembourg," said Mr. Cunningham, whose bank is the leading U.S. bank in the deposits it takes from non-banks and which earns 80 percent of its profits from this business. Bank of Boston, which is smaller and even more committed to this operation in proportion to its size, gets a little more than a quarter of its deposits from the interbank Euromarket. Bank of America gets 58 percent interbank

and the other American banks even more.

In this business, U.S. banks in Luxembourg have something to offer. "You wouldn't expect Frenchmen to go to a French bank," one specialist in personal banking said. Another said that there was little reason to go through a Swiss bank and pay fees that are higher than in Luxembourg. "Luxembourg means something," said Bank of Boston's Edouard Champion. "It is the way to avoid intermediaries." Another banker cites the dangers of Switzerland for personal banking customers: the possibility of a withholding tax being applied, the danger of snooping by the U.S. Securities and Exchange Commission.

Chase's other expertise is in correspondent banking. For example, it acts for the Luxembourg clearing group, Cedel, in the United States. And it is a paying agent, which earns fees and a certain amount of rollover interest. "The borrower pays one or two days before the coupon is due," Mr. von Goertz said. But in this business, of earning fees for services to the banking community, Chase is a weak second to Citibank.

director of Chase, is not willing to allow the more stringent Luxembourg secrecy laws to apply if there is any suspicion that a U.S. client might be engaged in insider trading. "We rarely have an American client," he said. "For an American client, we would assume he wants to hide something. We could ask him for a waiver of secrecy if an American authority asked for information. We would not want to jeopardize our American license."

None of the other banks offering private banking services shared his concern. But Mr. von Goertz may have been reacting to a peculiarity of the Chase hierarchy, which puts Luxembourg and other private banking centers (like the Channel Islands) under William M. Rowan of Chase-Manhattan Switzerland.

Chase's other expertise is in correspondent banking. For example, it acts for the Luxembourg clearing group, Cedel, in the United States. And it is a paying agent, which earns fees and a certain amount of rollover interest. "The borrower pays one or two days before the coupon is due," Mr. von Goertz said. But in this business, of earning fees for services to the banking community, Chase is a weak second to Citibank.

"This is more like a factory than a bank," said Jean-Pierre Frass, who heads the Citibank operation in Luxembourg. "We provide complementary financial services to other banks and institutions. Our bank is not open to the public." Citibank acts as nominee, paying agent, safe-keeping agent, depository and even destruction agent for other banks and the Cedel network. Sixty-five percent of the staff work on security, and the bank has an enormous vault to store all that paper safe from theft, counterfeits and fire. Even after insurance has taken a slice, it is with Chase, among the top ranking U.S. banks in profitability.

Not only is Citibank situated at some distance from the rest of the Luxembourg banks, but is visually a world removed from the plush surroundings intended to attract the high net-worth individual client. But these diversification moves out of Euromarket business are the price the U.S. banks in Luxembourg had to pay for survival. "Diversification is a useful thing for Luxembourg," Commissioner Jaans said, "particularly in a period where bank profits are affected by wild interest and exchange rate fluctuations."

The arrival of another newcomer to Luxembourg, Merrill Lynch, has emphasized the appeal of Luxembourg as an investment haven for the rich international client. They are in the same business as we are — personal banking," said Mr. Champion of Bank of Boston.

And Ernest Mühlen, treasury minister-delegate, noticing that Merrill Lynch was "becoming more active," forecast that other U.S. brokerage houses and some Japanese might choose to follow. "There is business to be done not only in portfolio management, but in the stock exchange, for example in European Depository Receipts," he said. (These enable a share from the United States or Japan to be quoted and traded in Europe.) Merrill Lynch, along with several of the U.S. banks, is an active intermediary on the Luxembourg stock exchange.

—VIVIAN LEWIS



Eckehard Storck  
Deutsche Bank

## Germans: A Strong Presence

(Continued From Page 7S)

bour bank and should use the currency of the country," said Eckehard Storck of Deutsche Bank. Yet, for all his defense of Luxembourg, most recently in a long lecture at the Capital Markets Society at Goethe University in Frankfurt, Mr. Storck said that Deutsche Bank was shifting some of its operations to London when they originate in countries with a high withholding tax. "We can use the tax against British taxes because of double taxation agreements," he said. "There is a limited possibility to absorb withholding taxes by offsetting against Luxembourg taxes."

The lack of a double-taxation agreement network in the Grand Duchy affects German and other banks, which have alternative European — and which earn profits. The shift to London is partly a matter of cosmetics. With loan demand off in Germany because of the recession, banks have put business on the books of branches (such as London) rather than subsidiaries (such as Luxembourg). Profits can be moved the same way, and profits are rising for German banks at this juncture because of falling interest rates. "Income from operations mainly accrues in Germany," one German banker said. "There are ways and means."

But of the shift within Europe, he said, "It is artificial; it can be reversed from one day to the next."

A major uncertainty for the German banks in Luxembourg is the rules, definitions and timing of the Berlin banking authorities' impositions on Luxembourg of the cumbersome German system of banking ratios. So far, there is only an informal agreement that the ratios, most notably the rule against allowing capital and reserves to fall below 1/18th of loan volume, will be applied by German banks outside Germany. The Luxembourg contingent is as confused as the home offices about what the new measures will entail and the timing of the shift. There is concern as to whether the "prudent" ratios should also apply — the rule that a bank must have reserves to offset 20 percent of loans to a German bank, like Citibank AG, and 50 percent of loans to a foreign bank, like Citibank S.A. — or whether subordinated loans, which count as capital in Luxembourg, will be allowed in Germany, as the Bank for International Settlements has advised.

The trend, when the "gentlemen's agreement" has turned to law, possibly as soon as the end of 1984, will be for German banks to do even more business in Luxembourg. Home-office pressures, regulations and some factors in Luxembourg itself will help to speed matters. "The climate has suffered because taxes have risen — direct taxes, indirect taxes," Mr. Storck said. "We are irritated because costs are going up. We are comparing Luxembourg today to Luxembourg in the past. Why should I compare it to London?"

## Policies Hold Back Recession's Ravages

(Continued From Page 7S)

gram through increases in indirect taxation, such as Value Added Tax (VAT), more loans and wage restraint.

The austerity plan, spread over the next two years, has as an important element — limitations on the indexation of wages. "We can no longer allow automatic wage rises every two months. From 1983 and 1984 we will allow only 4 tranches of indexation, of 2.5 percent this year and 1 percent in 1984," Mr. Saater said.

Moreover, there have been cuts in administrative costs and a tightening of social expenditure. Mr. Saater, who is also social affairs minister, noted that Parliament is currently debating a bill to reform Luxembourg's social security system and to create a new method of financing the system geared to cuts.

Along with having to cope with industrial production that was estimated to have declined by more than 1.8 percent last year compared with 1981 and a contraction in gross domestic product of around 2 percent, the government has had to tackle a trade deficit believed to have widened from over 16 billion francs in 1981 to about 25 billion last year. Banking and tourism services tend to compensate for the deficit and Luxembourg usually managed to notch up a healthy surplus on its current account balance of payments.

But greater efforts have had to be made to lessen the imbalance in trade, particularly with neighboring Belgium, where the deficit to

Luxembourg's disfavor was over 24 billion francs in 1981.

Since 1976, Luxembourg has mounted a major campaign to draw new industry to the Grand Duchy, partly to compensate for the loss in jobs caused by the ARBED steel crisis and partly for the trade imbalance. During the period up to the end of last year, 47 companies have taken advantage of good industrial locations, certain tax advantages and a neutral geographical situation to set up or plan to set up business in the Grand Duchy. As of 31 December 1982, some 2,380 were employed with the new firms already in operation and a further 500 to 1,000 jobs in the pipeline.

The figures may sound small but in a country where 2,200 unemployed make up 1.7 percent of the workforce, and the Grand Duchy's highest ever unemployment rate, the numbers count for much. The new industries range from chemicals and plastics to glass and aluminum and will inject a fresh lease of industrial life into the north-east and the more deprived southern regions of Luxembourg.

Also on the bright side, Mr. Saater said that government has managed to keep to its declared aim of pushing the budget deficit to below 3 percent of GDP, with 2.8 percent achieved in 1982 and 1.4 percent projected for 1983, although the ceiling for next year will be harder to adhere to.

Inflation has also been held relatively in check, limited to 9.4 percent in 1982 and 8.1 percent the previous year, thereby holding it within the government's declared ceiling of 10 percent.

—MICHAEL METCALFE

## A \$98-Billion Share In International Debt

(Continued From Page 7S)

took two years to reach an agreement," one banker said, smiling. "It really isn't good news."

The depreciation of the Luxembourg franc brought other problems in its wake. Most Luxembourg banks have their capital denominated in Luxembourg francs while their assets are predominantly in dollars. As the Luxembourg franc sank against the dollar, so capital-to-assets ratios came under pressure. This put a brake on assets building and saved Luxembourg banks from some of the wilder "loose, counterproductive" by "banks" in other countries.

The heaviest provisions among the Luxembourg banks are the West German banks. In 1981, Commerzbank International declared no after-tax after-provisions profit. But the bank's pre-tax provisions profit of 613 million francs was sufficient to propel it to 15th place in the ranking of the center's most profitable banks. Commerzbank International is a traditional lender to the West German construction industry, which was hard hit by the onset of the recession. The bank was also recovering from an earlier disastrous misjudgment over the path of interest rates. It had been caught in the embarrassing bind of lending long at low interest rates while funding short at high rates.

The fact that most West German banks in Luxembourg have been lending back into West Germany has meant that they, too, have had to make provisions against such corporate borrowers as AEG. Since Dresdner bank is AEG's lead bank, it is reasonable to assume that Dresdner's Luxembourg subsidiary, Compagnie Luxembourgeoise de la Dresdner Bank, would have to make substantial provisions against that risk.

But the importance of West German banks based in Luxembourg in providing funds for West German industry is decreasing. According to Bundesbank figures, West German banks based in Luxembourg provided 55.7 percent of

all foreign loans to West German corporations in 1980. By the end of 1982, West German banks based in Luxembourg were accounting for barely 40 percent of foreign loans to West German corporations. Part of this change is due to the relative attraction of West German risk for banks of other nationalities. But part is also due to a deliberate shift in strategy on the part of the parent of the West German banks based in Luxembourg that have branches in London. "Our parent has deliberately shifted loans to London, that we would not have taken," said a senior West German banker. "That is because it still has room to increase its own portfolio rather than use us. There wasn't the case when international lending in its prime. They needed us for our ability to leverage up to 33 times our capital."

Few Luxembourg bankers expect to return to pure international lending if and when the present sovereign debt crisis passes. One reason will be due to the hobbling of the most important group of foreign banks in Luxembourg, the West German banks. Their parents have agreed with the West German supervisory authorities to consolidate their Luxembourg subsidiaries into their accounts. The most important effect of this measure is that the West German banks based in Luxembourg will have to reduce their capital to assets ratio from the 33-times figure they enjoy in the Grand Duchy to the 18-times figure that prevails in Germany.

Another reason for bankers' skepticism that Luxembourg will return to its former importance is the new nature of the Euromarket in the Euro market's early days, banks growth and profits came from asset building; today, that has changed. Bankers are now more concerned with the performance of their assets and are wary of increasing them. Luxembourg bankers like to point out that the Grand Duchy is not just a banking center. But it does not seem to have the resources to cope with the new Euromarket.

## FINANCIAL HIGHLIGHTS 1982

## Our activities include

- short and medium term euro-currency loans
- forfaiting and guarantees
- money and foreign exchange trading
- securities and precious metals trading
- acting as trustee
- accepting of deposits
- portfolio management

1981	- in billion Flux -	1982
92.3	Balance sheet total	99.0
46.0	Volume of credits	46.0
41.1	Due from banks	49.1
1.8	Securities	0.8
85.4	Deposits	91.6
3.0	Capital funds	3.1

\* The complete balance sheet as well as the profit and loss account will be published in the MEMORIAL, official gazette of the Grand-Duchy of Luxembourg, edition C

NORD/LB  
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29241 Securities  
472391319 Telefax  
Infotec 6000

Telex  
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## The Euro-Bank with strong links to the Nordic Countries

## Banque Nordeurope S.A.

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## Specialized Services:

- ▷ Sight and time deposits in all major Eurocurrencies
- ▷ Money market and forex transactions
- ▷ Facilities for individual investors
- ▷ Medium-term loans
- ▷ Import/export financing

**Financial Highlights**

as per Dec. 31, 1982

Balance Sheet Total	2,550
Loans and Advances to Customers	4,190
Credit Volume	4,682
Capital Funds incl. Profit of the Year	682

**Hanse Bank S.A.**  
Luxembourg

Shareholders:  
Landesbank Schleswig-Holstein  
Girozentrale 90%  
Bank of Helsinki Ltd. 10%

25 Boulevard Royal  
P.O. Box 612  
Telephone 46842-1  
Telex 1508 hanse lu

as per December 31st in DM million

	1981	1982
Due from Banks	1,028	1,265
Loans	1,401	1,171
Deposits	2,456	2,596
Subscribed Capital	53	101
Paid-in Capital	53	71
Total Assets	2,619	2,799
Capital Funds	77	131
Operating Profit	14	20

**Management**  
Rainer Kühn  
Frederick R. Hopson  
Treasurer  
Jürgen Völter

**Dealing**  
V. Junker  
J.P. Bochaton  
J. Toll  
M. Voigt

## Helaba Luxembourg '82 Improved financial strength

Hessische Landesbank International, S.A.  
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Telephone: (forex) 496031  
Telex: (forex) 3296 hela lu

Wholly-owned subsidiary of Hessische Landesbank  
—Girozentrale—

	1981	1982
Due from Banks	1,028	1,265
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**Helaba Luxembourg**  
Hessische Landesbank International S.A.

MONDAY, JUNE 13, 1983

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## EUROBONDS

By BOB HAGERTY

### Doubtful Over Rally Prospects, Dealers Trim Back Inventories

LONDON — Coming off last week's slump, Eurobond dealers are awaiting a cue from the U.S. bond market with much anxiety and little optimism. The gloom is so thick that investors who favor a contrary approach might want to take note.

Prices on elderly Eurodollar bonds fell by around 1/4 to 1 point last week. General Motors Acceptance Corp.'s 10 1/2 percent bonds maturing in 1990, for example, slid to 98 1/2 from 99 1/4.

Dealers, disheartened about the prospects for a major rally, were tightening inventories built up earlier in the year. Investors made themselves scarce, figuring there was little risk that they were about to miss out on a boom.

"At the end of the week, many dealers said the inventory pruning was likely to continue, especially because Eurobond yields still appeared low compared with the yields available in the U.S. market."

"Even the relatively bullish view, however, 'The market is fighting around the bottom,' one dealer said, 'and we will have a pop up again, but it isn't likely to be anything dramatic.'"

The most popular anxieties of the week involved the closely related questions of whether rambunctious money supply growth was forcing the Federal Reserve to tighten up on credit and whether Paul A. Volcker would be responsible for such a move.

"Until those questions are answered, reading the U.S. credit outlook will be difficult. 'Ironically, I think the market would do a lot better if the Fed did tighten up,'" said Mark Turner, a vice president at Citibank. Such a move probably would boost interest rates further in the short run but also would remove uncertainty.

Should President Ronald Reagan turn out Mr. Volcker, the market would have new worries. "The market has grown accustomed to his face," one dealer noted.

Late Friday, the credit markets received a pleasant surprise: The Fed reported that the M-1 money supply grew a mere \$100 million in the latest week. The market had feared a bloating of \$2 billion or more. But next week's news is expected to be worse as tax refund money pushes in. And as one dealer remarked, "It will take more than one week of good news to improve sentiment in this market."

Against this background, several new issues spluttered last week.

State Bank of New South Wales, a new name in the market, got a withering welcome. Its \$100 million of seven-year notes were priced at par, or 100, bearing 11 1/2 percent. They ended the week at about 97 1/2, more than wiping out the 1/4-point commission allowed for underwriters.

Japan Air Lines offered \$75 million of 10-year bonds priced at par and bearing 11 percent. That issue ended the week at about 98.

Both issues involved interest-rate swaps, in which the bond issuer trades its fixed-rate money for another party's floating rate. The need to time such issues for the other party's convenience makes them liable to come to market at an inopportune moment.

**Harsh Medicine for Drug Company**

Then there was the \$125-million, 10-year issue from Richardson Vicks, a U.S. pharmaceutical company. Issued at par with a 11 1/2 percent coupon, it slumped to around 97 1/2 by Friday afternoon. Since the paper is rated two grades below prime quality, "it needed an accommodating market," one of the managers conceded.

But one dealer was horrified that the maker of Vicks VapoRub could fail to expedite the selling market. "How can you say no to that?" the dealer asked. "Your mother used to rub it on my chest."

No such kind griping was in store for the European Community. Its \$1.5-billion issue of floating-rate notes went on sale Friday morning. Despite the record size of the offering, the issue was half sold out by late in the day. Credit Suisse First Boston, the lead manager, reported.

The notes mature in seven years, but investors have the option of repayment after five.

The market's initial response was less reserved than that for Sweden's \$1.2-billion issue, which set the previous record when it came out in January. Dealers said that the European Community was regarded as a slightly better risk than Sweden and that the Swedish issue paved the way for its successor. Back in January, noted Mitchell Shivers of Seneca Mountain & Co., "the market wasn't used to billion-dollar deals."

The issue is part of a \$3.7-billion package the European Community is putting together to finance a loan for France. Most of the rest of the

## Wall Street's Big Five in Treasury Debt

By Michael Quint

New York Times Service

NEW YORK — Wall Street is full of mid-men whose business is to bring buyers and sellers together and extract a profit along the way.

In the Treasury market, the world's largest securities market with more than five times the dollar volume of the New York Stock Exchange, middlemen have carved a special niche. Because there is no central trading floor for Treasury issues, a handful of little-known broker firms have evolved to execute trades between securities companies.

"Brokers are, in effect, an exchange," said Richard A. Spelke, senior vice president at Security Pacific National Bank of Los Angeles, which owns R.M.J. Securities, a government securities broker. "They provide the Treasury bond market with the same service that the New York Stock Exchange provides to the equity market."

R.M.J. and the four other major brokers in the Treasury market are crucial to the bond traders whose decisions help determine whether interest rates rise or fall. The investing public, whether a pension fund buying \$100 million of bonds or an odd-lot buyer of \$10,000 of Treasury bills, does business with a securities firm but seldom with one of these specialized brokers.

"The industry is moving toward increased use of brokers," Mr. Spelke said. "We see strong growth continuing, assuming that the federal deficit problem is not solved."

The Treasury brokers could be the only firms on Wall Street to rejoice over a \$200-billion federal budget deficit. To them, large deficits mean big trading volume and large profits, whether prices are rising or falling. Although brokers do not publicize their revenues or profits, everyone in the business is said to be making a good living.

Security Pacific is not the only large financial company to see opportunity in the brokering business. A British company ac-

(Continued on Page 21, Col. 5)



Richard Jackson, president, R.M.J. Securities

Larry Seffer, executive vice president, Cantor, Fitzgerald Securities

Edmund Lunder, president, Fundamental Brokers

### Wall Street's Network Of Government Securities Brokers

1 Garban Ltd.  
120 Broadway  
First broker to display prices on video screens... Purchased for \$26 million last May by Mills & Allen P.L.C., a diversified British company... Now employs 52 brokers.

2 Fundamental Brokers  
90 John Street  
Founded in 1970... largest broker of Treasury and agency securities, acquired in 1980 by Mercantile House Holdings P.L.C., a British financial services company... Employs 100 brokers.

3 R.M.J. Securities  
130 John Street  
A division of Security Pacific National Bank since May 1982... Formed in 1968, after the original company merged with Fundamental Brokers... 135 employees.



4 Chappelaine & Company  
20 Exchange Place  
Richard F. Chappelaine started the firm in 1974... Known to traders as "Chappy"... Smallest of the four brokers who serve only the major Government securities dealers, employing 60 brokers.

5 Cantor, Fitzgerald  
One World Trade Center  
Started in 1972... Does not serve only dealers, but transmits prices through Teletype Systems, and reaches 6,000 regional securities firms and other large investors... 48 brokers and an equal number of assistants.

The New York Times

## Negative Investor Psychology, Not Fed's Actions, Pushed Up Rates

By Yla Eason

New York Times Service

NEW YORK — Interest rates rose last week not because the Federal Reserve tightened credit availability, but because market participants sold securities in the belief that a tightening had occurred.

Negative investor psychology and behavior pushed rates up, several analysts concluded after reviewing Fed funds trading in the money market.

Leading to this conclusion was the report that banks ended the week with free reserves of \$403 million on June 8. These reserves were more than needed to satisfy the banks' required reserve position at the Fed, therefore the federal funds rate should have been lower, analysts said.

Last week, however, there was widespread speculation that the Fed was behind the rate rise in an attempt to tighten credit growth. This interpretation caused many

investors to sell government securities and raise rates to accommodate what they thought was a policy trend toward higher rates.

In addition, uncertainty over the direction of Fed policy caused many investors to retreat from buying, further depressing prices.

### U.S. CREDIT MARKETS

U.S. discounting rate increases to 10 percent to attract them back to the market.

The federal funds rate rose from 8.77 percent on June 1 to 8.84 percent on June 8, yet banks had excess or free reserves on deposit at the Fed every day during that statement week, according to a Fed official.

The federal funds rate, at which banks loan reserves to each other overnight, is one of the most closely watched daily indicators of Fed policy available to the market; the

Fed can push the rate up or down by adding or withdrawing reserves from the banking system.

Since the rate rose without any apparent signs that the Fed was behind the increase, analysts now conclude that market forces drove it higher.

"It's an example of the effect market psychology can have to force up interest rates," said Raul Niche, vice president of economic research at Money Market Services, a California-based economic forecasting firm.

Since reserves were higher than required, the Fed could have drained reserves from the system to offset the additions, but did not.

According to Bob Jones, chairman of Money Market Services, the Fed chose not to drain reserves because the market would have interpreted the action as an indication of tighter monetary policy.

He and other analysts said the fact that the Fed did not tighten was an indication that the Fed is being guided by growth in the monetary aggregate known as M-2, which measures currency and checks readily available for spending that is included in M-1 plus money market deposit accounts. This aggregate grew by \$23 billion in May, still within the Fed's growth target.

The smaller-than-expected increase of \$100 million in the M-1 was also encouraging to market participants, and prompted a sharp move to lower interest rates in the credit markets late Friday.

However, M-1 is still growing at 12.2 percent from May of last year, compared to the Fed's growth target range of 4 to 8 percent and this growth has prompted many analysts to suggest the Fed will move to reign in the growth.

## BIS Session Opens Amid Debt Fears

### Central Bankers Appear Divided Over Continuing Bridging Loans

Basel, Switzerland

Central bankers will confer at the annual meeting of the Bank for International Settlements Monday amid fears that some of their carefully assembled international rescue packages for debtor countries could fall apart.

In the past 12 months, central banks have agreed on more than \$5 billion in emergency loans to countries unable to pay their debts. But some, such as Brazil, are having difficulty meeting the requirements and repayment schedules.

European central banking sources said a default in one of those loan packages could spark what is already being termed a "second wave" debt crisis.

Central banks are increasingly reluctant to be type-cast as "lender of last resort," stepping in to bail out countries when no one else will. But some central bankers see it as inevitable that they will have to extend more credits and relax conditions for repayment on those already arranged.

Since the BIS first became involved in the international debt crisis last year, it has played an increasing role in coordinating central bank bridging loans. The loans have effectively contained the crisis and given debtors breathing space while the International Monetary Fund and commercial banks negotiate comprehensive medium-term rescue packages.

But Fritz Leutwiler, president of the BIS and the Swiss National Bank, and Bundesbank President Karl Otto Pöhl have said the character of the BIS, effectively the central banks' own central bank,

will be threatened if these credits become common practice.

Mr. Leutwiler indicated in February that it was time to halt BIS bridging credits and said a \$300-million loan in preparation for Yugoslavia would be the last. But since his remarks, Hungary has received \$100 million and Chile \$350 million.

The sources said central bankers themselves are divided over the merits of continuing these operations. But there is general agreement that there could be little alternative if a major debtor such as Brazil—which owes about \$90 billion to governments, banks and international organizations—fails to meet IMF targets and precipitates a second debt crisis.

BIS last week had to grant Brazil a repayment extension until the end of June on a \$400-million installment of its bridging credit. It was originally due at the beginning of the month. Brazil is facing major problems with its debt package, particularly in obtaining short-term commercial bank credit.

Meanwhile, Argentina reported Sunday that it is making progress in negotiations with its 265 creditor banks for a \$1.5-billion medium-term loan. Julio Gonzalez del Solar, the president of the country's central bank, said: "There are no major problems now." The country was beginning to make June interest payments, bringing debt servicing up to date, he said.

Also, Miguel Mancera, head of Mexico's central bank, said that his country will complete repayment of a \$1.85 billion bridging loan when it falls due in August.

### U.S. Consumer Rates

For Week Ended June 10

Passbook Savings	5.50 %
6-Month Savings Certificate	9.69 %
12-Month Savings Certificate	9.69 %
Time-Deposit Bonds	9.04 %
Bank Money Market Accounts	8.22 %
Home Mortgage	12.00 %

of stronger economic growth and expectation of inflation caused by a rapidly growing money supply will "force the Fed to step in sooner or later to restrain money growth."

Mr. Jones also believes the Fed should be tightening but have not done so "because they are afraid of the interest rate consequences."

## Third-World Strategy Shifts Seen at Unctad Under Belgrade 'Big Top,' Poor Nations Seek Immediate Steps by Rich

By Paul Lewis

New York Times Service

BELGRADE — For the rest of this month, more than 3,000 delegates from 160 rich and poor countries will be letting off steam at another annual meeting of the United Nations Conference on Trade and Development, held as a vast discussion on economic matters between the poor South and the rich North that happens only once every four years.

At such trade conferences, millions of words are spoken and mountains of paper consumed. The host country makes a killing from so many expense-account visitors.

Yugoslavia, currently raised its motel rates 60 percent before the conference. But few decisions are made, because the conference's authority is limited to the field of raw materials. Still, the talk here will range across a much wider spectrum of subjects.

Gargantuan, time-consuming meetings also serve as a sounding board for North-South relations. They reveal subtle shifts in the way rich and poor countries approach one another. Already the debate at

Unctad VI, as the meeting is termed, reflects significant changes in perceptions of the world economy.

In one of the major shifts, the developing world is altering its negotiating strategy for dealing with the rich.

Since the first oil price shock, the Group of 77—the informal body in which developing countries coordinate their UN strategy—has been pressing for a major restructuring of the international financial system set up after World War II. The group wants to create what it calls a new international economic order, more responsive to the needs of the poor.

But this grandiose aim no longer has top priority. At the conference, the developing world for the first time is emphasizing a specific list of "immediate measures" that it wants industrial countries to agree to, in order to prevent the world's economic ills from worsening.

These measures include automatic debt relief, an increase in world liquidity through the International Monetary Fund, greater aid and private bank lending to developing nations, and freer access for their exports to the markets of the rich.

"We are sharpening the priority

we give to specific economic problems," said Zimbabwe's minister of finance and development, Bernard T.G. Chidzero.

This more pragmatic stand by the Group of 77 in part reflects its members' frustration with the meager results of their demands for a radical reshaping of the international economic order.

Far from winning a larger share of the pie, developing countries have found themselves shouldering the worst of the world recession, with declining growth and a slump in export earnings from raw materials.

Another reason for the South's

new tone lies in the switch in leadership of the nonaligned movement when Prime Minister Indira Gandhi of India succeeded Fidel Castro of Cuba earlier this year.

The nonaligned movement has virtually the same membership as the Group of 77 and sets the broad political direction of its economic demands. Significantly, it was at March's summit meeting of non-aligned nations in New Delhi that the call for "immediate measures" first emerged, when Mrs. Gandhi also urged suggestions that the Soviet Union be declared the movement's "natural ally."

In the industrial West, the trade

(Continued on Page 19, Col. 2)

## U.S. to Fight Merger Of Pay-TV Networks

By Sally Bedell Smith

New York Times Service

NEW YORK — The Justice Department plans to file a civil suit to block a proposed merger of the second and third-largest U.S. pay-television networks, Showtime and the Movie Channel.

The department's antitrust division, acting on a staff recommendation, has ruled in essence that combining the two channels into one would cause undue concentration in the pay-television business and stifle competition.

The proposed merger would be a joint venture of three film studios—Paramount Pictures, Warner Brothers, a division of Warner Communications, and MCA Inc.—and two companies involved in satellite entertainment, the American Express Co. and Viacom International. The plan represents a major challenge by Hollywood studios to Home Box Office, the largest U.S. pay-television network. It is now received by 12 million cable-TV subscribers.

The Justice Department's decision, announced Friday, comes after a four-month investigation by the staff of the antitrust division. Unlike Home Box Office, which

is highly profitable, Showtime, with 4 million subscribers, began making a profit only last year on estimated revenue of \$192 million. The Movie Channel, with 2.3 million subscribers, is not believed to be profitable yet.

Showtime, owned by Viacom, has a fare similar to Home Box Office, offering movies, special programs, theatrical productions and series for a monthly fee paid by cable subscribers. The Movie Channel, owned by Warner Communications Inc. and American Express, offers movies to subscribers for a monthly fee.

The action by the Justice Department could also send the major Hollywood studios into new combinations and ventures that would comply with antitrust laws and at the same time give them a direct stake in the increasingly lucrative pay-television business that Home Box Office now dominates. The studios contend that because of its size, they are forced to do business with Home Box Office, which they say pays too little for their films.

### Market Closing

Financial markets and banks in Hong Kong will be closed Monday and Wednesday for holidays.

### NEW ISSUE

This announcement appears as a matter of record only.

June, 1983



U.S. \$250,000,000

## Caisse Nationale de Crédit Agricole

Floating Rate Notes Due 1995

with Warrants to purchase

U.S. \$125,000,000 10% Bonds Due 1989

Kidder, Peabody International

Merrill Lynch International & Co.

Salomon Brothers International

Bank of America International

Bank of Tokyo International Limited

Banque Indosuez

Banque Paribas

Chase Manhattan Capital Markets Group

Credit Lyonnais

Credit Suisse First Boston Limited

Daiva Europe

First Chicago

Goldman Sachs International Corp.

London & Continental Bankers

Samuel Montagu & Co. Limited

Morgan Guaranty Ltd.

Morgan Stanley International

Nippon Credit International (HK) Ltd.

Société Générale de Banque S.A.

S. G. Warburg & Co. Ltd.

Credit Agricole

سید احمد علی

[illegible][illegible]

540	5 % 1994 May	49	maturity	5/2 1/4	29.35	5.25	Owens (Hinds) 36.00	1 1/4 to maturity	5/2 1/8	4.75 - 2.81	540	100% Lingo 36	104 1/2	36.00	307 1/2	2.53	1.26	
540	Firestone Over 54.04			31 Dec 48			4 1/2 % 1987 Jul	151	maturity	5/2 1/8			7 3/4 % 1996 Mar					
	5 % 1988 May	91 1/2	maturity	5/29 3/8	23.56	2.96	Pine American 76.00	1 May 49			5.26	Agm Ab		2 Jan 65	str 175 -			
				1 Oct 71			6 3/4 % 1988 Sep	71 1/2	maturity	5 1/3	46.71		5 1/2 % 1996 Sep	120	15 Jun 65	str 242 1/2	4.40	2.26

[illegible][illegible][illegible][illegible]

	Jan	Feb	Mar	Apr
CRSdx	145	148	148	148
CRSdx	145	148	148	148

For the Week Ending June 10, 1983

	Option & price	Colls	Puts
CRSdx	145	148	148
CRSdx	145	148	148

Option & price	Call	Put
----------------	------	-----

Amort.	20	8	r	r	r
1978	54	215	4%	1-14	7%
1979	54	215	4%	1-14	7%
1980	54	215	4%	1-14	7%
1981	54	215	4%	1-14	7%
1982	54	215	4%	1-14	7%
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2016	54	215	4%	1-14	7%
2017	54	215	4%	1-14	7%
2018	54	215	4%	1-14	7%
2019	54	215	4%	1-14	7%
2020	54	215	4%	1-14	7%
2021	54	215	4%	1-14	7%
2022	54	215	4%	1-14	7%
2023	54	215	4%	1-14	7%
2024	54	215	4%	1-14	7%
2025	54	215	4%	1-14	7%
2026	54	215	4%	1-14	7%
2027	54	215	4%	1-14	7%
2028	54	215	4%	1-14	7%
2029	54	215	4%	1-14	7%
2030	54	215	4%	1-14	7%
2031	54	215	4%	1-14	7%
2032	54	215	4%	1-14	7%
2033	54	215	4%	1-14	7%
2034	54	215	4%	1-14	7%
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2036	54	215	4%	1-14	7%
2037	54	215	4%	1-14	7%
2038	54	215	4%	1-14	7%
2039	54	215	4%	1-14	7%
2040	54	215	4%	1-14	7%
2041	54	215	4%	1-14	7%
2042	54	215	4%	1-14	7%
2043	54	215	4%	1-14	7%
2044	54	215	4%	1-14	7%
2045	54	215	4%	1-14	7%
2046	54	215	4%	1-14	7%
2047	54	215			

... ..



**Florida Federal**  
Savings and Loan Association

The 5,000,000 shares constitute a portion of the 8,850,273 shares of common stock to be issued by Florida Federal Savings and Loan Association upon its conversion from a federal mutual to a federal stock savings and loan association. The remaining shares have been subscribed for through a subscription offering.

Merrill Lynch White Weld Capital Markets Group <small>Merrill Lynch, White, Pomeroy &amp; Smith Incorporated</small>	Bear, Stearns & Co.	A. G. Becker Partners <small>Inc.</small>
Alex. Brown & Sons <small>Incorporated</small>	Donaldson, Lufkin & Jenrette <small>Securities Corporation</small>	Drexel Burnham Lambert <small>Securities Corporation</small>
Hambrecht & Quist <small>Incorporated</small>	E. F. Hutton & Company Inc.	Lazard Frères & Co. <small>Securities</small>
L. F. Rothschild, Unterberg, Towbin <small>Incorporated</small>	Salomon Brothers Inc.	Shearson / American Express Inc.
Smith Barney, Harris Upham & Co. <small>Incorporated</small>	Wertheim & Co., Inc.	Dean Witter Reynolds Inc.
Atlantic Capital <small>Corporation</small>	Basle Securities Corporation	A. G. Edwards & Sons, Inc.
Montgomery Securities <small>Corporation</small>	Oppenheimer & Co., Inc.	Raymond, James & Associates, Inc.
Sogen Securities Corporation	Thomson McKinnon Securities Inc.	Robertson, Golman & Stephens
Daiwa Securities America Inc.	EuroPartners Securities Corporation	Jerry Williams, Inc.
The Nikko Securities Co. <small>International, Inc.</small>	Nomura Securities International, Inc.	Kleinwort, Benson <small>Incorporated</small>
Baring Brothers & Co., <small>Limited</small>	Cazenove Inc.	Yamaichi International (America), Inc.
Sal. Oppenheimer jr. & Cie. <small>Limited</small>	Pictet International <small>Limited</small>	Compagnie de Banque et d'Investissements, CBI
New Japan Securities International Inc.	Vereins- und Westbank <small>Aktiengesellschaft</small>	M.M. Warburg-Brinckmann, Wirtz & Co. <small>Limited</small>
Okasan Securities Company <small>Limited</small>		Nippon Kangyo Kakumaru International, Inc.
		Sanyo Securities America Inc.

**Dealers Cut Inventories**

Continued from Page 17

...the dealers' inventory levels are still high, but they are beginning to see a slight improvement in the market. The dealers are still holding onto their inventory, but they are beginning to see a slight improvement in the market. The dealers are still holding onto their inventory, but they are beginning to see a slight improvement in the market. The dealers are still holding onto their inventory, but they are beginning to see a slight improvement in the market.

**Japanese Visit Iran for Talks on Project**

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Morgan Guaranty  
Admiral Bank New  
Bank of New York  
Bank of America  
Goldman Sachs Inter  
LTCB International  
Morgan Guaranty &  
Bank of America  
Societe Generale  
Swiss Bank Corp  
S.G. Warburg & Co.

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## Dealers Cut Inventories

(Continued from Page 17)  
package is expected to come from a indicated loan. For that reason, se issuers hope that banks will ass along most of the notes to their investors and save their ap- pleties for big slices of the loan.

One manager estimated that both half the issue was going to anks. Japanese banks, in line with their usual liking for high-quality outers, were reported to be espe- cially eager for the EC paper.

Meanwhile, a group of banks and securities houses led by Union ank of Switzerland (Securities) id, was lining up an unusual quity offer by Bell Canada En- rprises, the parent of Bell Canada.

The company, which is Canada's ading telephone services concern nd owns 53.4 percent of the quipment maker Northern lecom, plans to offer about 12 million shares. The exact amount ill not be determined until just before the issue is priced on June 2, the managers say.

The unusual feature is that three eparate underwriting syndicates re-peddling the paper: one for anada, one for the United States nd one for the rest of the world.

The third group, expected to ke about two million shares, is ad-by Bell Canada's usual Euro- nd managers. The issue gives ell Canada a chance to cash in on he good name it has established in he Eurobond market.

At the same time, the company an reward its faithful bond un- dertakers with attractive commis- sions. "It's a lovely way of putting ommissions in the pockets of for- eign underwriters," said one bank- 'not involved in the offer.

The European issuers hope to ell their allotment of the shares, to e quoted in U.S. dollars, at close o the prevailing market price on une 22. One underwriter involved n the deal estimated that a dis- out of at least 25 cents will be ecessary. On Friday, Bell Canada hares closed in New York at 21.375.

*International Herald Tribune*  
Carl Gewirtz's column will resume ext week.

## Japanese Visit Iran For Talks on Project

TEHRAN — A Japanese dele- tion is holding talks with the Iran- government on completing the petrochemical complex at Ban- Khomeini on the Gulf, Japa- ese sources said Saturday.

A Japanese consortium led by he Mitsui group agreed in prin- le last month to resume work on he complex, which was 85-percent omplete when fighting between ran and Iraq halted construction eptember 1980.

## NEW EUROBOND ISSUES

Borrower	Amount (millions)	Maturity	Coupon %	Price	Yield At Offer	Terms
Council of Europe	DM 50	1988	open	open	—	Coupon indicated at 8 1/2%. Noncallable. Terms to be set June 15.
Council of Europe	DM 150	1993	open	open	—	Coupon indicated at 8 1/2%. First callable in 1991 at 101. Sinking fund to start in 1988. Terms to be set June 15.
Copenhagen Telephone	DM 100	1993	8 1/2%	100	8 1/2%	—
Isveimer	DM 100	1988	8 1/2%	100	8 1/2%	—
Rhythm Watch	DM 50	1988	open	open	—	Coupon indicated at 6%. Each 4,000 DM note carries a warrant exercisable into 1,000 shares of an anticipated 2.5% premium. Terms to be set June 13.
Dart & Kraft Finance	NZ\$ 10	1988	15 1/2%	99 1/2%	15.40	Noncallable.

## Third-World Strategy Shifts Seen at Unctad

(Continued from Page 17)  
conference has already shown that nothing concentrates the capitalist mind so wonderfully on the prob- lems of the poor as the threat of a banking crisis and a threatened re- covery.

It was the realization last sum- mer that Mexico, Brazil and Argen- tina were about to drown in a sea of debt, taking much of the U.S. banking system with them, that caused the Reagan administration to reverse itself overnight and back a bigger International Monetary Fund and more lending to the Third World.

Since then, the industrial world has come to realize that its own hopes of economic recovery are inextricably bound to economic de- velopment in the Third World. The notion of interdependency is finally being taken seriously. The argu- ment runs like this:

The Western system will fail if the Third World cuts back on im- ports. But to import, it needs mon- ey. So the IMF must be enlarged and banks encouraged to continue lending. But banks will not lend unless they see developing coun- tries starting to earn their way out of debt. And the Third World can- not export if the industrial world goes protectionist, unless new mar- kets are opened up to its industry in return. So the better-off devel- oping countries must also reduce their protectionism.

Such linkages imply that both North and South must set together to insure global economic recovery and bury the idea that an upturn in the West would gradually enrich the Third World too.

But differences remain on whether North and South should completely recast the international economic system or merely tinker with it.

While the Third World wants au- tomatic debt relief over the next two years, the West still prefers a case-by-case approach, though it does not rule out a new approach if this proves necessary. As Gordon Strech, the assistant secretary of State who is the U.S. delegation leader at Unctad VI, said: "If, for example, the current efforts to pre- vent a debt crisis are not sufficient, there will be a serious look at whether we need to do something more fundamental — a greater in- jection of liquidity, or so forth."

Another difference between North and South is over Unctad's competence. Northern countries want to safeguard the authority of international bodies like the IMF, the World Bank and the General Agreement on Tariffs and Trade, arguing that each must be left to decide on changes in the fields un- der its jurisdiction. But the South wants the trade conference to adopt resolutions urging these bod- ies to increase aid disbursements, issue more Special Drawing Rights, and so on.

Commodity price supports also

are likely to be a topic of lively dis- cussions at Unctad.

Originally, the Third World wanted to create a series of com- modity agreements that would lift raw material prices. Such schemes were a key element in the Third World's early ideas for a new in- ternational economic order.

Finally, a more modest scheme was agreed upon. This provides for Unctad countries to chip in \$750 million to create a "common fund" that then would borrow money on the private market to finance the costs of price stabilization schemes for up to 18 commodities ranging from bananas to phosphate rock.

But the prices set under the schemes must be approved by both producing and consuming coun- tries. The aim is to prevent wild price swings by withholding stocks when demand is weak and releas- ing them as it strengthens.

So far only five such agreements have been made, but recession has wrecked two of them in the last two years and demonstrated that the other three could provide pro- ducers with only very limited pro- tection.

The tin agreement is generally accepted as the most successful, largely because there are only a few producers and all of them can af- ford to withhold substantial stocks from the market. The main pro- ducers are Malaysia, Bolivia, Thailand and Indonesia. Currently they are being urged to stockpile roughly

half their production to defend the minimum price.

Although coffee prices have fall- en, Unctad thinks the international coffee agreement has limited the decline to about half what it would otherwise have been. But the agree- ment is unusual since it is policed by the United States and all the Western industrial member coun- tries that are committed to buy cof- fee only from producers belonging to the agreement. For their part, the producers must cut back ex- ports if prices threaten to fall be- low the floor price.

The natural-rubber agreement has also managed to stop prices from falling through its floor level. But this was set very far below the actual level of world prices when the agreement was drawn up in 1979. As a result, world prices have still declined by 60 to 70 percent without wrecking the agreement.

The sugar and cocoa agreements were swept away by the world re- cession, and the chances of reach- ing agreement on workable schemes for other commodities are considered slight.

So the West Europeans have hit on an easy way to score points with the Third World at Unctad VI. They praise the \$750 million com- modities plan, safe in the knowl- edge that it is unlikely to alter mar- ket forces. The United States remains hostile to the whole idea of tamper- ing with markets.

## Eagle Computer Is One Example Of How Issues Can Be Rescinded

By Vartan Vartanig  
New York Times Service

NEW YORK — The unexpected can run the best of plans.

Last Wednesday Eagle Comput- er Inc., a successful new computer company in Los Gatos, California, made its initial public offering of stock to the public — always a proud day for a fledgling company. The 2.75 million shares were of- fered at \$13 in the over-the-counter market and rose to \$17 before clos- ing at \$15.50. Hours later, the com- pany's president and chief execu- tive officer, Dennis R. Barnhart, 40 years old, died in a automobile crash.

Eagle Computer's directors de- cided to rescind the stock offer and said they planned to make it again after the prospectus and registra- tion statements could be revised to reflect the changes in management.

When an issue is rescinded, it is done in the time period, usually a week, between the "effective date" when the price is declared and sell- ing and trading begin, and the "closing date," when the company actually collects its money and dis- tributes its securities through an underwriter to buyers.

Trading done between those two dates is done on a "when-issued" basis so that if the offer is with- drawn, any trades in the secondary market are, in effect, canceled.

"Everyone starts even. It's like it never happened," said J. Perry Rudnick, executive vice president of Smith Barney, Harris Upham Inc. "That's the ultimate descrip- tion of paper profits."

Rescissions have been made for both stock and debt issues. Such a decision to withdraw an offer be- cause of adverse developments is not to be confused with offers — usually relatively risky ones — that are canceled because they are of- fered on a "best efforts" basis that gives the underwriter the right to cancel the whole transaction if there is insufficient buyer interest.

Although it means more paper- work and added costs, the decision to rescind an offer is made to fore- stall potentially expensive lawsuits charging the company with failing to disclose material developments that might hurt performance.

In the case of Eagle Computer,

Mr. Barnhart's death could be con- sidered a significant development because he had a direct hand in building the desktop computer company, especially since his as- cension to the top spot in May 1982. However, some analysts were confident that he had built a strong enough management team for the company to survive.

A variety of other reasons have led to rescissions in the past. Chief among those reasons is a change in the profit picture. For example, Computer Consoles Inc. decided to rescind a \$75 million convertible is- sue earlier this year when its expec- tations for future business cooled,

according to Frederick H. Joseph, executive vice president of Drexel Burnham Lambert Inc. After repricing the issue, the company was able to sell \$80 million of secu- rities a week later, he said.

Some reasons for canceling or postponing an issue are a little more unusual. One company, after its stock offering became effective, postponed an issue because it dis- covered that its new \$60 million building did not precisely comply with zoning laws, Mr. Joseph re- called. "They weren't going to tear it down, but it was a horrendous risk until it got straightened out," he said.

### GenFinance N.V. U.S. \$100,000,000 1 1/4% Bonds Due 1990

Paid as to U.S. \$200 per Bond  
and payable as to U.S. \$800 per Bond  
on 6th July 1983.

#### Notice to Bondholders

NOTICE is hereby given to persons entitled to Bonds that payment of the final instalment of U.S. \$800 per Bond is due to be made to GenFinance N.V. on 6th July 1983 ('the due date') in immediately available funds.

Accordingly:  
(A) any such person whose holding of partly paid Bonds is shown in the records of CEDEL S.A. ('CEDEL') must either:  
(i) authorise CEDEL, not later than its opening of business on 5th July 1983, to debit his account with CEDEL on that day with the amount due in respect of his holding of partly paid Bonds as shown in CEDEL's books at its close of business on 5th July 1983 at the rate of U.S. \$800 per Bond; or

(ii) make payment of the amount due in respect of his holding of partly paid Bonds, at the rate of U.S. \$800 per Bond, in same day funds to the account of CEDEL at The Chase Manhattan Bank, N.A., at 1 Chase Manhattan Plaza, New York, New York, 10081, Account No. 001-1-573714, in favour of GenFinance Instalment Collection Account, by not later than 10.00 a.m., New York time, on 5th July 1983.  
(B) any such person whose holding of partly paid Bonds is shown in the records of The Euro-clear Clearance System PLC ('Euro-clear') must authorise Euro-clear, not later than its opening of business on 5th July 1983, to debit his account with Euro-clear on that day with the amount due in respect of his holding of partly paid Bonds as shown in Euro-clear's books at its close of business on 5th July 1983, at the rate of U.S. \$800 per Bond.

GenFinance N.V. is entitled to accept payment of the final instalment of any Bond at any time after the due date. No payment made after the due date shall be accepted unless accompanied by a further payment representing interest accrued at the rate of 14 1/4 per cent. per annum. GenFinance N.V. may elect at any time after 20th July 1983 not to accept payment and shall be entitled to retain the first instalment of any Bond for which the final instalment has not been received and shall be discharged from any obligation to pay interest for any period subsequent to 5th July 1983 on, or to repay, such first instalment.

Neither CEDEL nor Euro-clear will clear any transactions in the Bonds for settlement on or after 6th July, 1983 unless such transactions are in fully paid Bonds.

13th June 1983

GenFinance N.V.

Gold Options (prices in \$/oz.)			
Month	Aug	Nov	Feb.
40	18.00-18.50	18.20-18.70	—
45	7.50-8.00	18.20-18.70	20.00-20.50
40	4.50-4.60	12.50-12.60	24.50-25.00
40	2.50-2.60	8.50-8.60	19.00-19.50
50	1.00-1.10	7.00-7.10	13.50-14.00

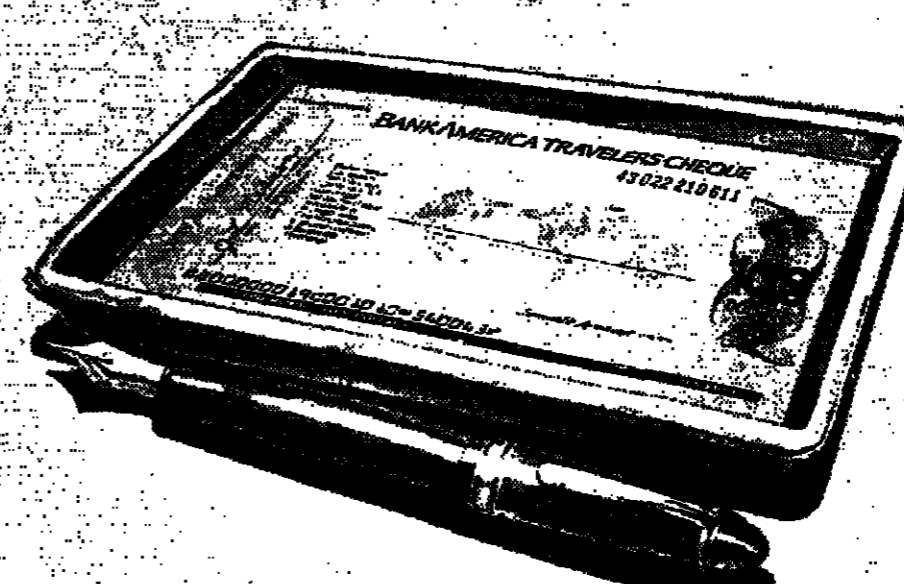
Gold #1250-41400  
Values White Weld S.A.  
1, Quai de Mont-Blanc  
1211 Geneva 1, Switzerland  
Tel. 21 02 51 - Telex 28 905

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